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Dayton Hudson Corporation

Annual Report
for 1976



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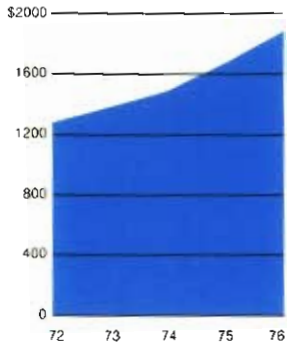


Consolidated

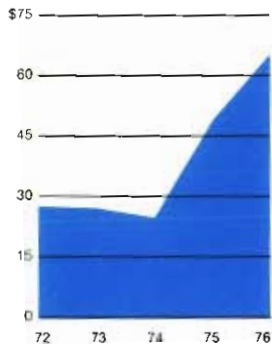
Retail

Real Estate

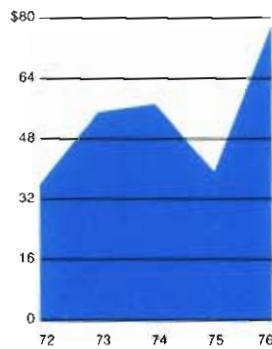
REVENUES



NET EARNINGS

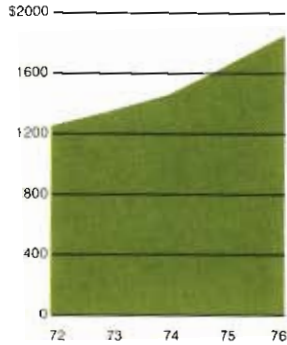


CAPITAL EXPENDITURES

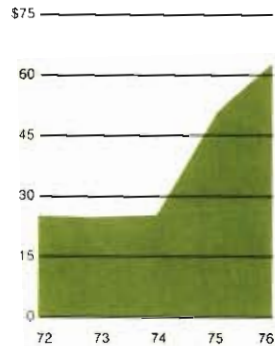


All figures in millions

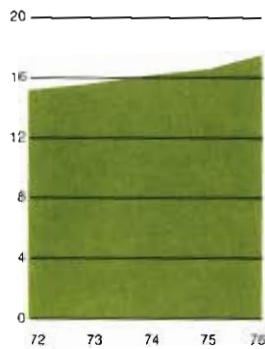
REVENUES



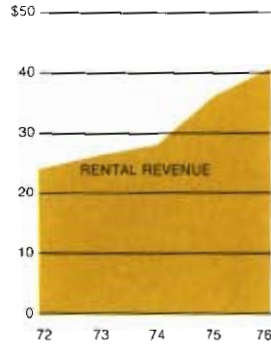
NET EARNINGS



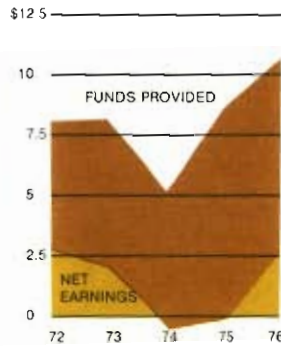
TOTAL SQUARE FEET



REVENUES



NET EARNINGS AND FUNDS PROVIDED BY OPERATIONS



TENANT LEASABLE SQ. FT.



Contents

Letter to Shareholders.....	2
Operating Review	4
Department Stores	5
Low-Margin Stores	7
Specialty Stores	8
Real Estate	10
Financial Review	12
Financial Statements	16
Summary of Accounting Policies	22
Notes to Financial Statements ..	24
Ten-Year Comparisons	30
Five-Year Line-of-Business Comparisons	32
Stores and Locations	34
Directors and Officers	37

Dayton Hudson Corporation

Dayton Hudson Corporation is a balanced retail company operating in 38 states through department stores, low-margin stores and specialty stores. Through its real estate business, it also owns, develops and manages regional shopping centers and other commercial properties.

Annual Meeting

The Annual Meeting of Shareholders will be held at 10 a.m. Wednesday, May 18, 1977, in the IDS Conference Theatre, on the concourse level of the IDS Center, 80 South Eighth Street, Minneapolis, Minnesota.

Corporate Offices

777 Nicollet Mall
Minneapolis, Minnesota 55402
Telephone: (612) 370-6948

COVER: Boutique at newest John A. Brown department store, Tulsa, Oklahoma.

Highlights

Consolidated	1976	1975	Percent Increase
	52 Weeks Ended January 29, 1977	52 Weeks Ended January 31, 1976	
Revenues	\$ 1,898.5	\$ 1,690.5	12%
Net Earnings	\$ 65.7	\$ 51.3	28
Net Earnings Per Share	\$ 4.11	\$ 3.22	28
Cash Dividends Per Share	\$.96	\$.66	45
Number of Shareholders	10,814	12,043	

Retail

Revenues	\$ 1,857.8	\$ 1,654.2	12
Net Earnings	\$ 63.2	\$ 51.4	23
Net Earnings Per Share	\$ 3.96	\$ 3.23	23
Number of Stores	413	366	
Retail Square Feet (000)	17,796	16,877	

Real Estate

Net Earnings (Loss)	\$ 2.5	\$ (.1)	—
Net Earnings (Loss) Per Share	\$.15	\$ (.01)	—
Funds Provided by Operations	\$ 10.8	\$ 8.7	25
Tenant Leasable Square Feet (000)	3,718	4,171	

All dollars in millions, except per-share amounts.



To Our Shareholders:

Dayton Hudson Corporation continued its strong pattern of earnings growth in 1976. Earnings per share were \$4.11, compared with the previous record of \$3.22 in 1975—a 28% increase. Revenues rose 12% to \$1,898,544,000. The Corporation further strengthened its financial position, significantly stepped up its physical expansion and twice raised dividends.

For the second consecutive year, the Corporation also set sales and profit records for each quarter, and continued to reach or exceed its aggressive financial goals. With 1976's profit improvement, the compound annual growth rate of our earnings over the past five years has been 22%. Return on shareholders' equity improved to 16.6% in 1976 from 14.4% in 1975. Dividends rose to 96 cents per common share, a 45% increase from the 66 cents paid in 1975. In January, the Board of Directors increased the 1977 first-quarter dividend to 30 cents—the fifth increase in three years.

We knew all year that the fourth quarter held our biggest challenge—specifically, improving on the record results of 1975's final quarter. We are pleased to report that we met the challenge with our strongest Christmas season ever. Earnings for the quarter came in at \$2.23 per share, up from \$1.93 a year earlier. The results confirm that our Retail companies were well-prepared to respond to their customers' concern for value. On the Real Estate side of our business, Dayton Hudson Properties added to its improved earnings in the fourth quarter with the sale of three office properties. This gain increased earnings by approximately 8 cents per share under our installment method of reporting gains from property sales.

Retail Results

Our Retail profit growth was again broadly based in 1976. The

department store, low-margin store and specialty store groups each contributed significantly to the improvement. Retail revenues totaled \$1,857,794,000 in 1976, up 12% from a year earlier. Retail earnings per share were \$3.96, up from \$3.23 in 1975. The chief individual contributors continued to be our three largest companies—Target, our principal low-margin strategy, and Hudson's and Dayton's department stores. Together these three produced approximately 80% of total earnings before income taxes, interest and corporate expense—the same proportion that they produced in 1975.

Target's dollar increases in sales and profit set the pace for the Corporation for the third straight year. Target widened its lead as our largest sales producer with a 20% increase in revenues and strengthened its position as the No. 2 profit producer with a 23% increase in earnings contribution.

Hudson's remained our largest profit contributor. Despite the effects of an auto strike and a year of relatively soft consumer spending in the Detroit area, Hudson's generated a fine second half showing to produce an 11% rise in earnings contribution for the year on a 3% increase in revenues.

Dayton's led the Corporation in earnings as a percentage of sales, coming through with a 21% increase in earnings contribution.

B. Dalton, Bookseller, had the Corporation's sharpest increase in revenues—27%—and continued to expand profitably with an increase of 29% in earnings contribution.

Real Estate Results

Our Real Estate operations have been an excellent source of cash flow in the past, and in 1976 they also demonstrated their capacity to contribute significantly to profits. Real Estate earnings were 15 cents

per share for the year, compared with a loss of 1 cent per share in 1975. Operating income from properties was up 10%. Funds provided by operations (earnings before deductions for depreciation and other non-cash charges) rose 25% to \$10,826,000.

Financial Position

We began the year in the strongest financial condition in recent years. We were even stronger at year end—considerably stronger. For our Retail business, balance sheet debt improved to 21% of total capitalization from 25% at the end of 1975 and 30% at the end of 1974.

Capital Investment and Expansion

We stepped up our investment in Retail expansion sharply in 1976 in keeping with our improved operating results. Including both capital expenditures and new lease obligations, the total was \$80 million, compared with \$38.9 million in 1975. Total Retail space grew to 17.8 million square feet. Additions included five department stores, four low-margin stores and 46 specialty stores. Sales generated by these new stores consistently surpassed projections.

For 1977 we are planning Retail capital investment in excess of \$100 million. Scheduled additions include eight low-margin stores, two department stores and more than 50 specialty stores. The additional space will total approximately 1.4 million square feet.

Management and Board Changes

The deepening organizational strength of the Corporation was reflected in several key management advances approved by the Board of Directors in September. William A. Andres, President since 1974, was elected President and Chief Executive Officer, succeeding K. N. Dayton, who continues as Chairman of the Board. Richard L. Schall, Executive Vice President, was given the additional title of



From left: William A. Andres, President; Richard L. Schall, Executive Vice President; K. N. Dayton, Chairman of the Board; Stephen L. Pistner, Executive Vice President, and Bruce B. Dayton, Chairman of the Executive Committee.

Chief Administrative Officer. Stephen L. Pistner, formerly Chairman of Target, was named to the new corporate position of Executive Vice President-Retail. Kenneth A. Macke succeeded him as Chief Executive Officer of Target. Both Mr. Pistner and Mr. Schall were elected to the Board of Directors, along with another outstanding executive from outside the Corporation – David T. McLaughlin, President and Chief Executive Officer of The Toro Company.

Four of our directors will be retiring from the Board at the end of their present terms. They are Philip H. Nason, one of our first outside directors, and three of the five Dayton brothers who planned and implemented our ascendance from a local family owned business to a publicly held and professionally managed corporation of national scale. Mr. Nason, who is also retiring as Chairman of the Board of the First National Bank of Saint Paul, will reach the retirement age for Board members in May. His financial acumen and broad-based executive perspective have made him a valued contributor to the Corporation's development in the decade since he joined our Board. Also retiring will be Donald C.

Dayton, retired Chairman of the Board; Wallace C. Dayton, who resigned as President of Dayton Development Company in 1967 to work as a private citizen on behalf of environmental conservation; and Douglas J. Dayton, former Target President and Corporate Senior Vice President, who left management in 1971 to become founder and Chairman of Dade, Inc., a development capital company.

Outlook

As we observed a year ago, the consumer came out of the 1975 recession with a heightened interest in value. A key factor in our performance in each of the past two years – and during the past Christmas season in particular – was the increasing ability of our operating companies to offer their customers value. This will continue to be extremely important in 1977, but we know that our highly people-oriented industry will encounter a variety of other trends and developments as well. We believe we are organized to respond to these more swiftly, more surely, more appropriately than ever before.

We have taken a balanced approach to retailing – a balance of regional and national strategies; a balance

of internal and external growth; a balance of aggressive expansion and conservative financial policies. We believe that the inherent strength of this approach has shown itself clearly in recent years, and that it will continue to provide a competitive edge for us in the future.

We can report that Dayton Hudson is off to a good start in 1977. Looking at the strength of sales over the past several months, we see a very positive message from our customers about their reading of the economic outlook and their ability to make purchases – wise purchases. In view of the rising productivity of our mature stores, the excellent reception given our new stores and our continuing physical expansion, we feel we have a sound basis for being optimistic about our prospects again in 1977.

K. N. Dayton
Chairman of the Board

William A. Andres
President and Chief Executive Officer

April 11, 1977

So far in the 1970s, Dayton Hudson Corporation has grown from 95 stores in 18 states to 413 stores in 38 states. It has moved up from fourteenth largest to eighth largest among the nation's non-food retailers. Total Retail space has grown by 66%; revenues have grown by 115%; earnings have grown by 177%.

The key to this growth, we believe, has been balance:

- Balance between our traditional department store and shopping center base and our major ventures into low-margin and specialty store retailing.
- Balance between acquisitions and internally developed strategies.
- Balance between internal and external sources of funds.
- Balance between operating company autonomy and corporate direction.
- Balance between short-term return and long-term profitability.

The performance levels we are now reaching attest to the benefits of balance—and to the strength of the foundation on which our growth has been built. The union between Dayton and Hudson was forged during the recession of 1970, then tested and proved sound by a second and deeper recession in 1975. Just how sound can be seen clearly in our results for the past two years. The profit base represented by Hudson's and Dayton's continues to expand, while the fastest growth of all is being achieved by two homegrown strategies—Target and B. Dalton.

Our experience has been that the better job we do of serving the customer, the more we are able to grow in size and performance; and that the more we grow in size and performance, the better job we are able to do of serving the customer.

Our business begins and ends with our customers. But our commitment to them carries with it an equal commitment to three other principal publics: our employees, our shareholders and the communities in which we operate. That is simply because serving the customer well requires skilled and motivated employees, continuing profit growth and a healthy environment in which to do business.

The Corporation is pledged to contribute to the personal and professional development of its employees. This was an integral part of our transition from a family-owned department store business in Minneapolis to a publicly held and professionally managed growth company of national stature. Throughout this transition, the Corporation placed strong emphasis on the continuous generation of new management talent and worked to ensure a succession of thoroughly professional management.

To ensure that our shareholders are well served, we are pledged to provide an attractive financial return, aiming at profit-growth objectives that are among the most challenging in the industry. We currently are meeting those objectives.

Our commitment to the communities in which we operate is expressed succinctly in our long-standing policy of contributing 5% of our Federal taxable income toward improving their quality of life. We have continued this policy because we believe strongly that it is good business to do so and that it has enchanted the return to our shareholders. We believe that as the quality of life in our communities improves, our company also receives a share of the benefits.

Our contributions are made chiefly to programs for solving social problems, and to the Arts. In 1976, donations by the Corporation and the Dayton Hudson Foundation totaled \$5.2 million. As a corporate citizen, Dayton Hudson also encourages employees to contribute time and talent to community service; insists on socially responsible business conduct of the highest level by its operating companies; and strives for open and clear disclosure of its activities and performance.

Customers, employees, shareholders, communities—for us their interests are inextricably linked. The common denominator in serving them well is long-range profit. Without profit we cannot continue to serve our customers, or retain our employees, or meet our financial objectives, or contribute to our communities. *With* profit we can, and we will.

Retailing: A Balanced Approach

Revenues from Retail operations were \$1,857,794,000, up 12% from \$1,654,202,000 in 1975. Retail net earnings were \$63,203,000, compared with \$51,417,000 in the previous year. Retail earnings per share were \$3.96, up from \$3.23.

We increased the number of stores we operate from 366 to 413 during 1976. Retail space grew from 16,877,000 to 17,796,000 square feet.

Our 10 Retail operating companies represent three separate strategies—department stores, low-margin stores and specialty stores. Although each group represents a distinctly different approach to the consumer, all three reflect a unifying merchandising philosophy that emphasizes dominant selections, quality, fashion and value. For the second consecutive year, each of the three improved its return on sales and its sales per square foot. Each continued to expand profitably.

Our current plans call for a significant step-up in Retail expansion over the next five years, most notably in the low-margin group. We are projecting capital investment for the 1977-81 period at about \$580 million, more than double the investment of the past five years. Of this, 50% is earmarked for the low-margin group—principally Target—30% for department stores and 20% for specialty stores. In all, this program would add more than 7.5 million square feet of retail space and very nearly double the number of stores we operate.

Department Stores

Revenues of the department stores group increased 7% to \$952,270,000. Earnings contribution* was \$93,328,000, an increase of 13.5% from 1975.

This group is made up of five operating companies, each emphasizing fashion leadership, quality merchandise, broad selections and customer service. They are Hud-

Hudson's

	1976	1975
Revenues	\$512,600,000	\$496,138,000

Hudson's passed the half-billion-dollar milestone in revenues in 1976 and set an earnings contribution record for the fourth time in the past five years. Revenues were up 3% for the year, after a flat



Hudson's Marketplace: Contemporary ideas for home and kitchen.

son's in Michigan and Ohio; Dayton's in Minnesota and North Dakota; Diamond's in Arizona and Nevada; Lipmans in Oregon; and John A. Brown in Oklahoma.

They are successfully demonstrating that the individuality and tradition of separate regional department store companies offer a continuing avenue for profitable growth. In an industry where reaction time is critical, we see these companies continuing to press unique advantages—a nimbleness in capitalizing on new trends and a sensitivity to changes in consumer mood and preferences that grows out of their regional orientation and local commitment.

They were operating a total of 44 stores at year end, most located in strong regional shopping centers. The total will rise to 46 in 1977.

*Earnings before corporate expense, interest and income taxes.

first half that reflected a relatively weak consumer spending pattern in much of the Michigan market. Sales began to pick up in the third quarter, and Hudson's finished with a 10% increase in the Christmas period.

Contributing decisively to the second-half improvement were two stores opened in July—a 240,000-square-foot full-line store in Dearborn, west of Detroit, and a 122,000-square-foot fashion-oriented specialty department store in Saginaw, Michigan. Hudson's closed its Dearborn budget store (86,000 square feet) and its Dearborn warehouse store (61,000 square feet).

Hudson's fourteenth store is scheduled to open in 1977—a 240,000-square-foot store in Novi, Michigan.

This expansion pattern is aimed at reinforcing Hudson's position in the expanding suburban Detroit

Fashioning A Competitive Edge

market on one hand, while building a regional position in markets outside the Detroit area on the other. In both instances, expansion has been in major regional centers. Largely because of Hudson's aggressive branch-store expansion, the downtown Detroit store accounted for only about 12% of Hudson's sales in 1976.

Dayton's

	1976	1975
Revenues	\$284,773,000	\$256,578,000

Dayton's 11% increase in revenues was its best since the 1960s. Earnings contribution was up even more sharply.

Among the factors contributing to this showing was the continued strong performance of Dayton's remote stores. In August, it opened its third store outside the Twin Cities, a 102,000-square-foot store in St. Cloud, Minnesota. (The others are in Fargo, North Dakota, and Rochester, Minnesota.)

Dayton's also opened another free-standing home store, a 53,000-square-foot unit near Rosedale Shopping Center in suburban St. Paul. Dayton's also operates a free-standing home store of 46,000 square feet near Brookdale Shopping Center and a separate home store in Southdale Shopping Center. With the inclusion of these home stores, Dayton's now is operating a total of 12 units.

The first priority in Dayton's long-term growth strategy is to add to its strong competitive position in the Twin Cities and expand its market share in key merchandise lines. In 1977 it will open its tenth Twin Cities store—a 170,000-square-foot department store south of Minneapolis. The second priority is additional regional expansion, capitalizing on the wide recognition and following Dayton's enjoys throughout a large portion of the Upper Midwest.

Diamond's

	1976	1975
Revenues	\$77,220,000	\$68,550,000

Diamond's 13% revenue increase was its fourth double-digit increase in the past five years. Its earnings contribution also reached a new high.

The company operates seven stores serving three of the fastest growing metropolitan areas in the United States—Phoenix and Tucson, Arizona, and Las Vegas, Nevada. Diamond's merchandising approach is closely attuned to the warm-weather lifestyle and leisure-time activity of the American Southwest. It focuses on medium to better quality apparel and accessories for the family, and a specialized decorative home and smallwares mix. Diamond's development plans are aimed at capitalizing on the rapid growth of its market base.

Lipmans

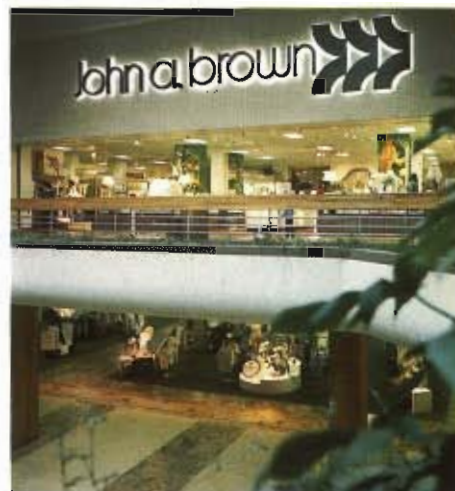
	1976	1975
Revenues	\$43,344,000	\$39,641,000

Lipmans' revenues were up 9%, although a period of relatively soft sales during the fall season prevented the company from improving its earnings contribution for the year.

Lipmans operates seven stores in Oregon. Its newest, a 50,000-square-foot store in Eugene, completed its first full year of operations in mid-1976.

Management has defined Lipmans' offering as a specialized department store operated to achieve a superior reputation for customer service, quality merchandise, fashion leadership and selective merchandise dominance within its core departments. Lipmans' merchandise mix concentrates on moderate to better quality men's and women's apparel and accessories. The target of its merchandis-

ing is a family unit or individual with above-average discretionary income.



John A. Brown's new Tulsa store.

John A. Brown

	1976	1975
Revenues	\$34,333,000	\$27,819,000

John A. Brown's 23% revenue increase was the sharpest in the department store group, and the company continued to improve its earnings contribution.

The results are a product of the company's total strategic repositioning in Oklahoma City and Tulsa through a combination of new stores, upgraded presentation and an intensified fashion orientation. While retaining its traditional emphasis on value, John A. Brown has designed its merchandise mix to appeal primarily to customers with above-average disposable income.

In mid-1976, the company opened a 125,000-square-foot store in Tulsa, its second in that market. It operates three stores in the Oklahoma City area.

Low-Margin Stores



Target's newest Minnesota store: Organized for shopping efficiency.

Building Productivity and New Stores

Revenues of the low-margin stores group increased 18% to \$725,260,000 in 1976—on top of a similar increase in 1975. Earnings contribution climbed to \$46,797,000, an increase of 21%.

The group comprises two distinct strategies—Target and Lechmere. Each operates high-volume, low-expense stores featuring dominant selections of national-brand merchandise.

Target is a low-margin department store chain operating 52 stores in nine midwestern and southeastern states at year end. In basic merchandise, Target concentrates on quality name-brand goods. In

fashion merchandise, it is committed to leadership in the dominant trends, striving to meet or exceed the customer's quality expectations at the best price in the market.

Lechmere is a Boston-based hardlines retailer with a long-standing reputation as the market leader in competitive pricing of big-ticket items. It operates four stores in Massachusetts.

Target

	1976	1975
Revenues	\$613,392,000	\$511,937,000

Target produced a 20% increase in revenues for the second consecutive year, widening its lead as the Corporation's largest revenue-producer. Its return on sales also continued to rise. Pushed along by the productivity gains in established stores, Target's revenues increased by 67% and earnings contribution by 283% in the past three years.

Among the factors in Target's improving productivity have been:

- A highly visible emphasis on quality merchandise.
- A commitment to elimination of expense that does not contribute to value. (Target evaluates all costs in relation to their impact on the customer.)
- An insistence on honesty in customer relations—clear, straightforward advertising, with advertised merchandise available in depth; guaranteed refunds and adjustments; concern for product safety, backed up by laboratory testing.

After adding just three stores in a period of four years, Target opened four in four months during the last half of 1976. All are in existing Target markets—the tenth store in the Twin Cities, the fifth in the Denver area, the fifth in Houston and the second in Omaha. These

Specialty Stores

Over 300 Stores—And Growing

Revenues increased 21% to \$180,264,000 in 1976. Earnings contribution was \$12,745,000, up 30%.

The specialty stores group consists of three multi-store companies: B. Dalton, Bookseller, a national chain operating 250 bookstores at year end; Dayton Hudson Jewelers, a group of six regional fine-jewelry retailers; and Team, a chain of owned and franchised consumer-electronics stores. All three contributed substantially to the group's increased profitability in 1976.

This group represents both the oldest and the newest of Dayton Hudson's strategies. Not a single item of merchandise sold by Team today had even been invented when the first of the jewelry store companies was founded during the last century. Bookselling has been around far longer than even the oldest Dayton Hudson company—but not the way B. Dalton does it. B. Dalton sells books in a way that is as modern as the computer, a tool it has used to add speed and efficiency to the art of bringing readers and books together. In 1976, B. Dalton sold more hardcover books than any other retailer in the United States.

are stores designed from scratch to save the customer time as well as money. The presentation is direct—organized for shopping simplicity.

Target's accelerated expansion will continue in 1977, with seven open-



Scenes from a new Target store.



Manchester, New Hampshire, representing both an expansion of Lechmere's market and a refinement of its store design. About a third the size of present Lechmere stores, it has been carefully engineered to maximize the space available for merchandise presentation. It will have the interior flexibility to accommodate rapidly moving trends; non-selling space will be at a minimum. Emphasis will be on Lechmere's core departments: television, audio products, major appliances.



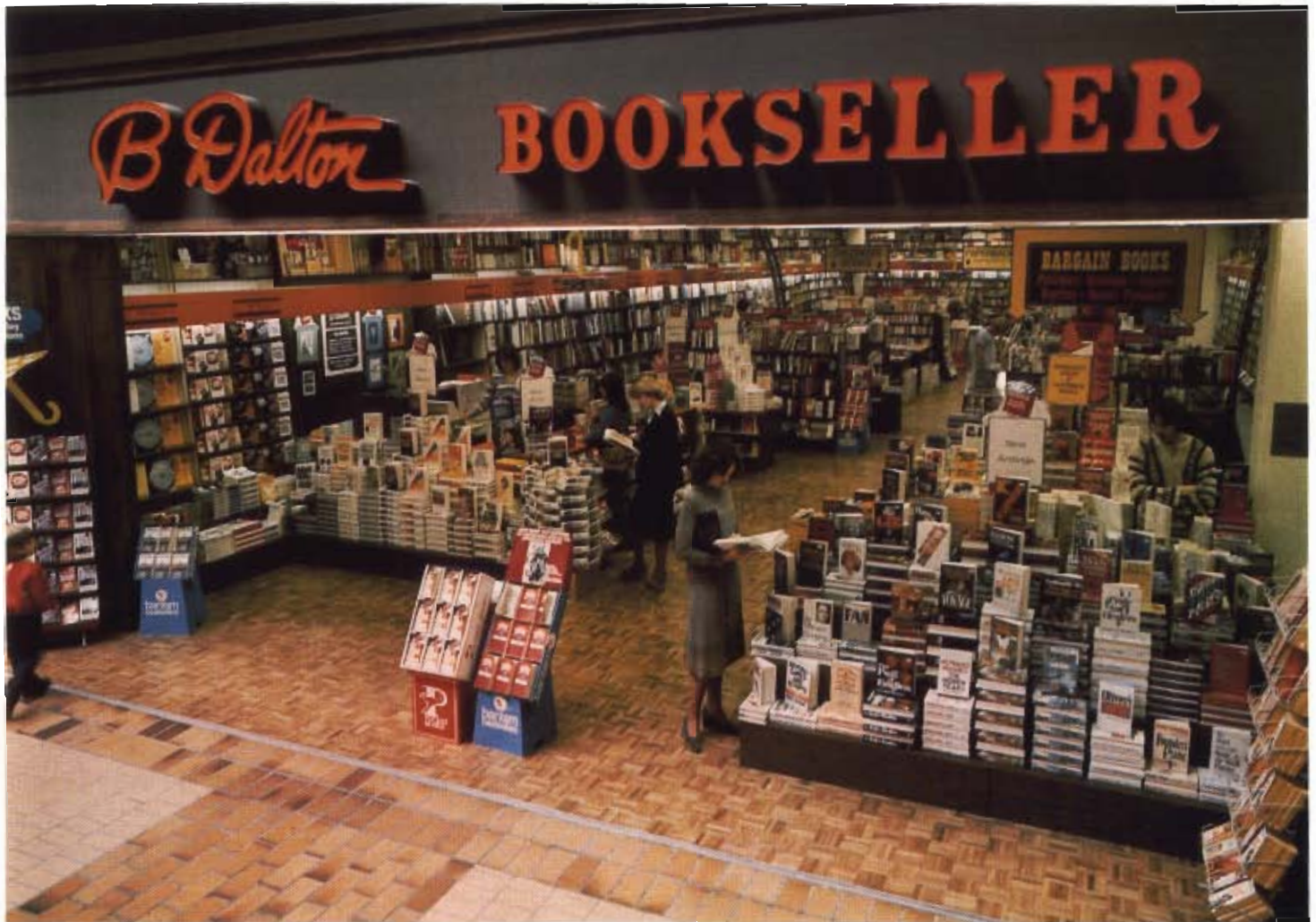
ings currently scheduled. Each site has been selected to strengthen Target's existing market position. Target's first expansion priority is to pursue the growth potential in existing markets.

Lechmere

	1976	1975
Revenues	\$111,868,000	\$104,233,000

Lechmere increased its revenues by 7% in 1976. More important, the company achieved significant improvement in return on investment and pushed earnings contribution to a new high.

The key to Lechmere's improvement has been its strengthened management organization, which has completed the transition to a fully professional basis. The company will undertake its first expansion in six years during 1977 with the opening of its fifth store. This will be an 85,000-square-foot unit in



New B. Dalton store; One of more than 40 opened in 1976.

B. Dalton, Bookseller

	1976	1975
Revenues	\$106,808,000	\$84,072,000

B. Dalton's 27% revenue increase made it the fifth Dayton Hudson operating company to pass the \$100 million milestone. It has ranked fourth in earnings contribution for the past three years.

It raised its earnings contribution substantially again in 1976, while increasing its store total from 209 to 250.

Most of the new stores are located in large regional shopping centers. However, B. Dalton has found that its stores also do well in central business districts and in smaller markets. Openings in 1976 were in three dozen communities in 19 states, with the emphasis on expansion in the Southeast.

Regardless of the market, B. Dalton stores strive to offer a dominant selection of titles built around early recognition of trends and issues and backed up by a high in-stock position on bestsellers. The company's computerized stock control system is balanced by a commitment to personalized service through a trained and knowledgeable sales staff. Special orders, credit sales, gift wrapping and gift certificates are among the services offered.

The company hopes to open its three-hundredth store during 1977. It plans approximately 50 openings.

Dayton Hudson Jewelers

	1976	1975
Revenues	\$34,058,000	\$31,361,000

Revenues rose 9%, Dayton Hudson Jewelers' best increase since 1972.

This company has the longest history within Dayton Hudson Corporation; four of its six divisions are more than a century old. The application of professional management,

centralized accounting and purchasing and innovations in promotion and presentation have added profitability without the loss of their distinctive merchandising traditions. The six are J. E. Caldwell (Philadelphia), J. B. Hudson (Minneapolis), J. Jessop & Sons (San Diego), C. D. Peacock (Chicago), Shreve's (San Francisco), and Charles W. Warren (Detroit).

Each now shares in the collective resources of Dayton Hudson Jewelers, but each remains a separate regional business. Each is the finest quality full-line jewelry operation in its market, offering all types of gems, precious jewelry and

gifts, as well as china, glass and silver for the home.

Dayton Hudson Jewelers opened two stores and closed one in 1976, raising its total to 41. Two openings are scheduled for 1977.

Team

	1976	1975
Revenues	\$39,398,000	\$33,873,000

Team's 16% increase in revenues was accompanied by an even sharper increase in earnings contributions.

The company is a chain of stores selling name-brand audio products on a broad regional scale. Management views its operations as two separate businesses:

- TeamCentral, which is in the business of establishing and serving a growing group of franchised consumer-electronics stores. These numbered 85 at year end.

- Teamtronics, which operates Team's 22 company-owned stores and is viewed in effect as the company's largest franchisee.

Franchised stores typically operate in small to medium-sized communities, offering their customers a wide selection of audio equipment for home and automobile. Company-owned stores are usually in larger cities and regional shopping centers.

Team opened two company-owned stores, while closing four in 1976. It increased its franchised stores by four. Team's expansion plans currently are focused on the franchising side of its business. It expects to add about 15 franchised stores in 1977.

Real Estate

An Independent Source of Strength

Our Real Estate company—Dayton Hudson Properties (DHP)—is in the business of developing and operating regional shopping centers. At year end, it was operating nine wholly owned centers and also had partnership interests in two others opened during 1976.

Just as Dayton Hudson's Retail companies seek to offer an unmatched selection of merchandise, each DHP center is designed to offer a combination of retail attractions that is unmatched in its market area. DHP centers typically are anchored by three or four major department stores, and they house a comprehensive array of specialty stores—90 or more in the larger centers.

DHP updates its centers continuously, working aggressively to attract additional quality retailers. For example, it has added full-line J. C. Penney stores to four Detroit-area centers over the past two years—Westland and Southland in 1976, following Northland and Eastland in 1975. Rosedale in suburban St. Paul is being expanded to accommodate a Penney's store, along with 30 more specialty tenants.

DHP's long-range planning has identified more opportunities for shopping center development than at any time in the past. Real Estate capital investment so far committed to centers scheduled to open during the 1977-79 period totals more than \$100 million, including DHP's share of joint ventures. This accelerated expansion program is extending DHP's base of development from Michigan and Minnesota into Arizona, Nevada, North Dakota and Oklahoma.

Our Real Estate operations have been managed primarily to produce an expanding flow of rental income

from retail tenants. However, there are other benefits—ranging from DHP's reservoir of real estate expertise to its independent financial strength.

NET CURRENT VALUE

In measuring Real Estate financial performance internally, management finds it useful to compare the book value of its investment in properties with an estimate of Net Current Value. At year end, the Corporation carried the shareholder investment in Dayton Hudson Properties on its books at \$14 million. Management estimates that the Net Current Value of the investment in the operating properties included in this account is in excess of \$100 million.

The Net Current Value of these operating properties has been determined by applying a method employed by experienced buyers, sellers and mortgagees of commercial operating properties. This method is to capitalize at a percentage rate the operating income of properties that have been in operation for more than a year. This rate is designed to reflect the quality of a project and current money market conditions in determining a value that would be useful to an informed real estate investor. Management has used what it believes to be a reasonable capitalization rate of 10% in its determination of Net Current Value for this purpose.

For operating properties in operation less than a year and projects under construction, Net Current Value is based on book value.

The potentials to the Corporation of this unrealized appreciation lie principally in two directions. One is the generation of cash through the refinancing of mature properties whose present mortgages are substantially below the properties' market value. The other would be the sale of an interest in some of these properties.

Management currently is studying the role of Dayton Hudson Properties with a view toward maximizing its worth to the Corporation and its shareholders.



Woodland Hills Mall, Tulsa, Oklahoma: A Dayton Hudson Properties joint venture.

Dayton Hudson Properties

Rental revenues from tenants totaled \$40,750,000 in 1976, up 12% from 1975. Operating income (Income from operating properties before depreciation, interest and income taxes) totaled \$22,102,000, a 10% increase. Net earnings were \$2,460,000, or 15 cents per share, compared with a loss of \$100,000 in 1975. Funds provided by operations totaled \$10,826,000, an increase of 25%.

The first two in a series of joint venture centers opened during 1976. One of these is DHP's first regional center outside Michigan and Minnesota—Woodland Hills Mall in Tulsa, Oklahoma. This is a 700,000-square-foot center developed jointly with Homart Development Co. The other is Lakeside Center, a 1.3-million-square-foot center developed with Homart and the Taubman Company in Sterling Heights, Michigan.

DHP's third joint venture center—Twelve Oaks—is scheduled to

open in August 1977 in Novi, Michigan, 25 miles from Detroit. This is a 1-million-square-foot center also developed in partnership with Homart and Taubman.

DHP has also announced plans to open wholly owned centers in Las Vegas, Nevada, and Grand Forks, North Dakota, in 1978. Six additional centers are currently scheduled to open in 1979—a wholly owned center in La Crosse, Wisconsin and joint-venture developments in Benton Harbor and Kalamazoo, Michigan; Oklahoma City, Oklahoma; Phoenix, Arizona, and St. Paul, Minnesota.

DHP completed expansion of both Southland and Westland Centers in Detroit during 1976 and began a similar project at Rosedale Shopping Center in the Twin Cities. The company sold two office complexes to Connecticut General Mortgage and Realty Investments during the year. These were the four-unit Southdale Office Centre and the Southdale Medical Building, both located near Southdale Shopping Center in suburban Minneapolis.

We present separate financial statements for our two lines of business — Retail and Real Estate — to give as clear a picture of each operation as possible. We believe the performance and financial structure of each business can best be judged against the standards of its own industry.

Financial Goals

Dayton Hudson Corporation's primary financial objective is to provide shareholders with an optimum return on investment over time. To meet that objective our aim is to grow and earn at a rate among the best in industry.

Our specific goals are to earn a consistent return on shareholders' equity of at least 14% and sustain an annual growth in earnings per share of common stock of at least 10%. Our return on beginning shareholders' equity in 1976 was 16.6%. Earnings per share have increased at a compound annual growth rate of 22% since 1971 and 11% since 1966.

The keys to future achievement of our goals will be:

- To continue to earn a high return on existing assets, and
- To identify high-yielding strategies for future investments.

To focus the attention of the Corporation on these goals, each operating company's management is evaluated first on its ability to meet an agreed-upon standard for return on investment (ROI), and second on its ability to increase earnings.

New investment and capital projects are subject to a common discipline of analysis throughout the Corporation. Our primary criteria for allocating available capital to an operating company are its current profitability and return on investment, the anticipated return on new investment, development of market position, the strength of the management team and the quality of its strategic plan. In keeping with our emphasis on return on investment, we have allocated more than 90% of Retail capital available for 1977-1981 to our five top performing companies.

For our Retail business, after-tax ROI was 10.9% for 1976, compared with 9.4% in 1975. We define investment as the sum of beginning of year working capital and non-current assets, plus the present value of all leases. Earnings are after-tax and adjusted to exclude financing costs. The following table sets forth the investment and the return thereon for fiscal 1976 and 1975:

	(Millions of dollars)	
	1976	1975
Net Earnings of Retail	\$ 63.2	\$ 51.4
Interest Expense After Tax	4.2	4.2
Interest Equivalent in Leases After Tax (a)	4.9	4.8
Earnings Before Financing Costs	\$ 72.3	\$ 60.4
Beginning of Year Investment:		
Working Capital (b)	\$247.3	\$236.1
Net Property and Equipment	276.5	271.6
Other Assets	3.8	6.1
Present Value of Financing Leases	36.3	37.8
Present Value of Operating Leases (c)	98.4	93.1
Total Investment	\$662.3	\$644.7
Return on Investment	10.9%	9.4%

(a) The interest equivalent in lease obligations is determined by assuming a 3.65% after-tax interest rate on the beginning of year present value of leases.

(b) Interest-bearing debt is excluded from current liabilities for purposes of computing working capital.

(c) The present value of operating leases is computed by discounting future rents at an interest rate of 7.6%.

Capital Structure at January 29, 1977
(Millions of dollars)

	Consoli- dated	Retail	Real Estate
Notes Payable	-0-	-0-	-0-
Long-Term Debt (Current and Non-Current)	\$237	\$119	\$118
Present Value of Financing Leases	36	36	-0-
Present Value of Operating Leases	104	104	-0-
Total Debt and Equivalent	\$377	\$259	\$118
Deferred Credits	23	12	11
Equity	448	434	14
Total Capitalization	\$848	\$705	\$143

Debt Ratio (Total Debt and Equivalent as % of Total Capitalization)	44%	37%	83%
--	-----	-----	-----

Each of our projects is expected to achieve an ROI of at least 12% by the fifth year of operation, and an internal rate of return (also known as discounted cash flow, or DCF) of at least 10% over the life of the project. These standards are achievable by each of our Retail businesses, despite differences in return on sales. For example, a department store will produce a higher return on sales than a low-margin store, but will require more assets than a low-margin store to achieve a given sales level. Certain of our strategies attain a higher return or reach a satisfactory level of return sooner than others, thereby justifying a faster rate of expansion.

Financial Policies

The Corporation operates under clearly defined financial policies designed to maintain a strong, conservative capital structure and strengthen the "A" rating of our senior debt. These policies are intended to provide maximum flexibility as to sources of funds and to minimize our cost of funds. Different financing methods and capital structure are considered appropriate for our Retail and Real Estate lines of business.

1. Financing Methods: The greater part of our Retail expansion has been financed with internally generated funds. Because we own the majority of our department and low-margin stores, depreciation provides a significant source of internal funds flow in addition to retained earnings. We currently plan to finance the expansion of our department store and low-margin operations with internal funds and unsecured debt as needed, and to continue to lease our new specialty store space.

The financing of our Real Estate business is distinctly different, reflecting that business's fundamentally different financial characteristics and levels of acceptable leverage. Financing is done with secured long-term debt (primarily mortgages) which is supported by the credit of numerous diverse tenants through long-term leases.

2. Capitalization Policies: Our target ratio of debt to total capitalization for the Retail business — including recognition of the present value of all lease obligations — is 40%. We began 1976 with a ratio of 40%, and reduced it to 37% by year end. Management expects that the Retail debt ratio will be in the range of 35-40% during the next five years.

The following table reflects our current capitalization, as well as the segmentation of our capital structure between Retail and Real Estate.

3. Dividend Policy: It is the Corporation's policy to make regular increases in dividends per share of common stock consistent with earnings growth over time. It is our present expectation that when considering dividend increases, the Board of Directors will use as a guideline approximately 30% of the prior year's earnings.

Dividends paid in 1976 to shareholders of common stock totaled \$.96 per share, an increase of 45% over 1975. The quarterly rate was increased to \$.25 for the dividend payable June 10, 1976, and was increased again to \$.30 for the dividend payable March 10, 1977. The current annualized rate of dividends is \$1.20 per share.

Summary and Analysis of Operations

The following comments and table relate primarily to the results of operations for the past three years, as shown in the Five- and Ten-Year Comparisons on Pages 30-33.

Net earnings for fiscal 1976 were 28% greater than those of the prior year. This increase is especially noteworthy, as it followed the more than doubling of earnings in fiscal 1975. The table below reconciles the change in earnings for 1976 compared with 1975, and for 1975 compared with 1974.

	1976	1975	1974
Retail Earnings Per Share	\$3.96	\$3.23	\$1.59
Real Estate Earnings Per Share .....	.15	(.01)	(.02)
Consolidated Earnings Per Share	\$4.11	\$3.22	\$1.57
Change From Prior Year	\$.89	\$1.65	
Variance Analysis:	Net Earnings Per Share Impact		
Retail Line of Business	1976 vs 1975		1975 vs 1974
Change in Net Earnings due to:			
Sales Volume	\$.38		\$.20
Gross Margin Rate .....	.04		.81
Operating Expense Rate .....	.28		.76
Start-up Expense	(.18)		.09
Interest Expense	—		.17
Corporate Expense .....	.06		(.27)
Income Tax Rate	—		(.14)
Other Factors .....	.15		.02
Retail Earnings Change from Prior Year ..	\$.73		\$1.64
Real Estate Line of Business			
Change in Net Earnings due to:			
Operating Income	\$.07		\$.18
Gain from Property Sales .....	.10		(.04)
Joint Ventures	(.02)		(.04)
Other .....	.01		(.09)
Real Estate Earnings Change from Prior Year	\$.16		\$.01
Total Consolidated Earnings Change from Prior Year	\$.89		\$1.65

Financial Review (continued)

Significant Factors Affecting Earnings:

Retail Operations

- **Revenues** in 1976 increased 12.3% from the prior year, compared with a 12.4% gain in 1975. From 1971 to 1976, the compound annual growth rate for total revenues was 11%.

	1976 (Millions of dollars)	1975	Increase	
			All Stores	Comparable Stores
Department Stores . . .	\$ 952.3	\$ 888.7	7.2%	4.8%
Low-Margin Stores . . .	725.2	616.2	17.7	12.7
Specialty Stores	180.3	149.3	20.7	11.0
	\$1,857.8	\$1,654.2	12.3%	8.3%

Comparable-store revenues exclude the contribution of stores opened during the preceding 12 months. The 8.3% increase in comparable-store revenues in 1976 compares with an 8.5% increase in 1975 and a 3.1% increase in 1974.

The greater part of the revenue increases in 1976 and 1975 resulted from improved productivity in existing stores. Productivity improvement was most noticeable in the low-margin stores. Specialty stores continue to provide the highest sales volume per square foot.

	Revenues Per Square Foot*		
	1976	1975	1974
Department Stores	\$ 95	\$ 91	\$ 87
Low-Margin Stores	119	107	94
Specialty Stores	152	139	135

*average of beginning and end of year gross square feet

- **Gross Margin Rate** in 1976 again contributed to increased earnings. The margin improvements in 1976 and 1975 resulted in large part from our focus on improving merchandise mix to emphasize the higher margin departments.

- **Operating Expenses** compare favorably with those of the previous two years. They were 27.5% of sales in 1976, compared with 28% in 1975 and 29.4% in 1974. The percentage relationship of operating expenses to sales measures the relative amount of each sales dollar that is required for occupancy expense, payroll, advertising and other expenses directly supporting the Retail function. The improvement in 1976 resulted primarily from productivity increases of non-payroll costs in our low-margin stores. The improvement in 1975 resulted from the effectiveness of contingency expense planning early in the year and reflected productivity increases of both payroll and non-payroll costs.

Maintenance and repairs expense increased \$.2 million in 1976 and \$2.1 million in 1975. The 1975 increase was a result of increased maintenance programs in several low-margin stores.

Advertising expense increased 16.3% in 1976, compared with 3.5% in 1975. The 1976 increase reflects the greater number of store openings compared to the prior year.

- **Start-Up Expenses** were \$11.1 million in 1976, compared with \$5.1 million in 1975. This increase reflects the much higher rate of expansion during 1976. Expansion of our Retail space in 1976 included five department stores, four Target stores and 46 specialty stores. During 1976, we closed two small Hudson's stores and six specialty stores, for a net addition of 919,000 square feet of Retail space. Net Retail space added in 1975 amounted to 590,000 square feet.

Department Stores Stores and Expansion	End of 1976		End of 1975	
	Stores	Space*	Stores	Space*
Hudson's	13	5,105	13	4,903
Dayton's	12	3,184	10	3,052
Diamond's	7	862	7	862
Lipmans	7	669	7	669
John A. Brown	5	483	4	353
Total	44	10,303	41	9,839
Low-Margin Stores				
Target	52	5,440	48	5,120
Lechmere	4	803	4	803
Total	56	6,243	52	5,923
Specialty Stores				
Jewelers	41	240	40	239
B. Dalton	250	956	209	812
Team**	22	54	24	64
Total	313	1,250	273	1,115
Total Retail Stores	413	17,796	366	16,877

*Thousands of gross square feet

**Includes only 100% owned stores; 85 Team stores are franchised

In 1977, the Corporation plans to open two department stores, eight low-margin stores, and about 50 specialty stores, for a total of approximately 1.4 million square feet of additional Retail space.

- **Net Interest Expense** was \$8.7 million in 1976, compared with \$8.8 million in 1975 and \$14.3 million in 1974. Interest in 1975 was lower than in the prior year due to reduced short-term borrowing requirements and interest income from short-term investments. Interest income in 1976 was \$1.8 million, compared with \$1 million in 1975.
- **Corporate Expense** decreased to \$12.5 million in 1976 from \$14.6 million in 1975, due in large part to lower expense for anticipated exercise of stock appreciation rights. The increase in the 1974-75 period resulted from higher charitable contributions (it is the Corporation's policy to utilize 5% of its Federal taxable income for charitable purposes in communities where it does business) as well as the initial expense for the accrual for anticipated exercise of stock appreciation rights by key personnel throughout the organization (See Note I in Notes to the Financial Statements).
- **Income Tax Rate** for Retail was 52% in 1976, compared with 52.1% in 1975 and 50% in 1974. The major portion of the rate increase in 1975 was due to higher state taxes in Michigan and less investment tax credit as a percentage of pre-tax income.

Real Estate Operations

- **Rental Revenue** from operating properties increased 12.3% in 1976 to \$40.8 million. This compares with \$36.3 million in 1975 and \$28.2 million in 1974. Since 1971, the compound growth for rental revenue has been 12%. Additions to leasable space, growth in percentage rent based on tenant sales, and a continuing program to upgrade tenants in older centers contributed to this favorable trend.

Operating income (income from operating properties before depreciation, interest and income taxes) totaled \$22.1 million in 1976, compared with \$20.2 million in 1975 and \$14.3 million in 1974. The growth rate in operating income since 1971 has been 16%.

- **Property Sales** resulted in a pretax gain of \$3.3 million in 1976 versus \$9 million in 1975 and \$2.3 million in 1974. The 1976 increase was attributable primarily to the sale of office properties. The decrease in 1975 was the result of declining land sales, reflecting the uncertain economic outlook and scarcity of mortgage money that made it difficult for potential buyers to obtain financing.
- **Joint Ventures** are becoming an important vehicle in our development of new shopping centers. The \$.5 million increase in 1976 losses from joint ventures was primarily attributable to pre-opening expenses, depreciation and interest at two regional shopping centers opened during 1976. Joint venture losses in 1975 increased \$1.3 million due to development expenses related to three regional shopping centers. A more detailed discussion of these projects can be found in the Operating Review.
- **Funds Provided by Operations** totaled \$10.8 million in 1976, compared with \$8.7 million in 1975 and \$5.2 million in 1974. Funds Provided by Operations is equivalent to cash generated by operations before principal payments on long term debt and is regarded by the investment building industry as an important measure of real estate performance.
- **Long-Term Debt** of our Real Estate business declined in 1976, since the mortgage debt assumed by the purchasers of the office properties (\$17.3 million) exceeded the net proceeds from the refinancing of Eastland Center (\$14.4 million).

Financial Position

We began 1976 in strong financial condition, and continued to improve throughout the year through increased earnings, lower debt, and continued effective management of working capital. In mid-June, Standard and Poor's and Moody's raised our commercial paper rating to A-1/P-1, citing dramatically improved results of operations, as well as the company's conservative financing philosophy, modest usage of short-term debt, and strong liquidity.

- **Working Capital** increased only \$13.1 million during 1976. Our year-end working capital was 12.8% of revenues, compared with 13.6% in 1975 and 14.6% in 1974.
- **Capital Expenditures** during 1976 increased sharply, reflecting our improved operating results and increased confidence in our business and the outlook for retailing. Retail capital investment, including the present value of new leases, totaled \$80 million, versus \$38.9 million in 1975.

Real Estate investment, including our proportionate share of joint-venture expenditures, totaled \$27.9 million, versus \$21.6 million in 1975.

Capital Investment 1976
(Millions of dollars)

	Consolidated	Retail	Real Estate
Capital Expenditures	\$ 79.5	\$62.7	\$16.8
Present Value of New Leases	17.3	17.3	—
Share of Joint Ventures	11.1	—	11.1
Total	\$107.9	\$80.0	\$27.9

For 1977, our plans call for new Retail investment in excess of \$100 million, including the present value of leases. For Real Estate, we expect about \$45 million, including our share of joint ventures.

Common Stock Prices

Common stock of the Corporation is listed on the New York Stock Exchange (symbol: DH). The number of shareholders decreased 10.2% to 10,814 in 1976 from 12,043 in 1975.

Quarter	Common Stock Price Range				Quarterly Dividend Per Share	
	1976		1975		1976	1975
	High	Low	High	Low		
First	\$35½	\$29¼	\$13½	\$ 9	\$.21	\$.15
Second	33¾	26¼	20½	12¾	.25	.15
Third	32¼	28¼	27	17¼	.25	.18
Fourth	38¾	32¼	34¾	24¾	.25	.18
Year	\$38¾	\$26¼	\$34¾	\$ 9	\$.96	\$.66

Results of Operations

Dayton Hudson Corporation and Subsidiaries

CONSOLIDATED

(Thousands of Dollars)

	1976	1975
REVENUES		
Net retail sales, including leased departments and carrying charges	\$1,856,013	\$1,652,269
Rental revenue	42,531	38,211
	<u>\$1,898,544</u>	<u>\$1,690,480</u>
COSTS AND EXPENSES		
Cost of retail sales, buying and occupancy	\$1,313,835	\$1,166,363
Selling, publicity and administrative	334,962	307,106
Depreciation and amortization	32,603	29,861
Rental expense	24,645	22,895
Interest expense	17,931	18,317
Taxes other than income taxes	41,607	39,852
Gain from property sales	(3,300)	(932)
	<u>\$1,762,283</u>	<u>\$1,583,462</u>
EARNINGS BEFORE INCOME TAXES	\$ 136,261	\$ 107,018
INCOME TAXES (Note F)		
Current	\$ 62,568	\$ 53,116
Deferred	8,030	2,585
	<u>\$ 70,598</u>	<u>\$ 55,701</u>
NET EARNINGS	\$ 65,663	\$ 51,317
NET EARNINGS PER SHARE	\$ 4.11	\$ 3.22

RETAIL

(Thousands of Dollars)

REVENUES

Net retail sales, including leased departments and carrying charges	
Rental revenue	

COSTS AND EXPENSES

Cost of retail sales, buying and occupancy	
Selling, publicity and administrative	
Depreciation and amortization	
Rental expense	
Interest expense	
Taxes other than income taxes	

EARNINGS BEFORE INCOME TAXES

INCOME TAXES (Note F)

Current	
Deferred	

NET EARNINGS

NET EARNINGS PER SHARE

See accompanying Summary of Accounting Policies and Notes to Financial Statements.

1976 1975

\$1,856,013 \$1,652,269
 1,781 1,933
\$1,857,794 \$1,654,202

\$1,303,863 \$1,157,133
 328,071 301,477
 26,122 23,739
 24,645 22,895
 8,677 8,798
 34,745 32,931
\$1,726,123 \$1,546,973

\$ 131,671 \$ 107,229

\$ 59,317 \$ 53,429
 9,151 2,383
\$ 68,468 \$ 55,812

\$ 63,203 \$ 51,417
\$ 3.96 \$ 3.23

REAL ESTATE

(Thousands of Dollars)

1976 1975

OPERATING PROPERTIES

Rental revenue \$40,750 \$36,278
 Operating expenses 18,648 16,119
\$22,102 \$20,159

OTHER (INCOME) EXPENSE

Interest expense:
 Operating \$ 8,534 \$ 8,760
 Development 280 378
 Other 440 381
 Depreciation and amortization 6,481 6,122
 Development expense 1,929 1,959
 Gain from property sales (3,300) (932)
 Other, net 219 1,308
\$14,583 \$17,976

EARNINGS BEFORE EQUITY IN EARNINGS (LOSS)
 OF JOINT VENTURES AND INCOME TAXES \$ 7,519 \$ 2,183

EQUITY IN EARNINGS (LOSS) OF
 JOINT VENTURES (Note G) (2,929) (2,394)

EARNINGS (LOSS) BEFORE INCOME TAXES \$ 4,590 \$ (211)

INCOME TAXES (Note F)

Current \$ 3,251 \$ (313)
 Deferred (1,121) 202
\$ 2,130 \$ (111)

NET EARNINGS (LOSS) \$ 2,460 \$ (100)

NET EARNINGS (LOSS) PER SHARE \$.15 \$ (.01)

Statements of Financial Position

Dayton Hudson Corporation and Subsidiaries

CONSOLIDATED

(Thousands of Dollars)

ASSETS

CURRENT ASSETS

Cash and short-term investments	\$ 70,496	\$ 54,526
Accounts receivable		
Thirty day accounts	2,465	3,087
Deferred payment accounts	276,540	238,646
Other accounts	19,309	26,796
Less allowance for losses	(8,540)	(8,651)
	<u>289,774</u>	<u>259,878</u>
Merchandise inventories (Note A)	237,722	217,029
Supplies and prepaid expenses	5,773	7,033
TOTAL CURRENT ASSETS	\$ 603,765	\$538,466

INVESTMENTS AND OTHER ASSETS	\$ 15,496	\$ 12,436
------------------------------------	-----------	-----------

PROPERTY AND EQUIPMENT (Note B)

Land	\$ 78,696	\$ 72,915
Buildings and improvements	459,164	443,100
Fixtures and equipment	123,237	109,797
Construction in progress	26,986	20,438
Accumulated depreciation	(249,068)	(232,014)
	<u>\$ 439,015</u>	<u>\$414,236</u>
	<u>\$1,058,276</u>	<u>\$965,138</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 174,807	\$135,922
Taxes other than income taxes	32,138	31,883
Accrued liabilities	60,944	52,010
Income taxes, currently payable	36,961	37,778
Deferred income taxes — installment sales (Note F) ..	45,298	37,203
Current portion of long-term debt	10,820	13,959
TOTAL CURRENT LIABILITIES	\$ 360,968	\$308,755

LONG-TERM DEBT (Note B)	\$ 226,329	\$241,211
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DEFERRED CREDITS —

principally income taxes (Notes D and F)	\$ 23,268	\$ 18,776
--	-----------	-----------

SHAREHOLDERS' INVESTMENT (Notes B and E)	\$ 447,711	\$396,396
	<u>\$1,058,276</u>	<u>\$965,138</u>

RETAIL

(Thousands of Dollars)

ASSETS

CURRENT ASSETS

Cash and short-term investments		
Accounts receivable		
Thirty day accounts		
Deferred payment accounts		
Other accounts		
Less allowance for losses		
Merchandise inventories (Note A)		
Supplies and prepaid expenses		
TOTAL CURRENT ASSETS		

INVESTMENTS AND OTHER ASSETS		
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PROPERTY AND EQUIPMENT (Note B)

Land		
Buildings and improvements		
Fixtures and equipment		
Construction in progress		
Accumulated depreciation		

LIABILITIES

CURRENT LIABILITIES

Accounts payable		
Taxes other than income taxes		
Accrued liabilities		
Income taxes, currently payable		
Intercompany accounts		
Deferred income taxes — installment sales (Note F) ..		
Current portion of long-term debt		
TOTAL CURRENT LIABILITIES		

LONG-TERM DEBT (Note B)		
-------------------------------	--	--

DEFERRED CREDITS —

principally income taxes (Note F)		
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SHAREHOLDERS' INVESTMENT (Notes B and E)		
--	--	--

See accompanying Summary of Accounting Policies and Notes to Financial Statements.

1976 1975
January 29, January 31,
1977 1976

.....	\$ 70,493	\$ 54,474
.....	2,465	3,087
.....	276,540	238,646
.....	9,185	9,801
.....	(8,325)	(8,426)
.....	279,865	243,108
.....	237,722	217,029
.....	5,636	6,929
.....	<u>\$593,716</u>	<u>\$521,540</u>
.....	\$ 7,080	\$ 3,823
.....	\$ 48,058	\$ 43,794
.....	311,122	281,306
.....	120,837	107,309
.....	19,775	17,716
.....	<u>(189,092)</u>	<u>(173,647)</u>
.....	<u>\$310,700</u>	<u>\$276,478</u>
.....	<u>\$911,496</u>	<u>\$801,841</u>

.....	\$172,432	\$133,853
.....	23,955	23,372
.....	57,513	49,945
.....	34,523	38,555
.....	12,519	(8,704)
.....	45,298	37,203
.....	7,409	7,636
.....	<u>\$353,649</u>	<u>\$281,860</u>
.....	\$111,681	\$123,823
.....	\$ 12,503	\$ 11,350
.....	<u>\$433,663</u>	<u>\$384,808</u>
.....	<u>\$911,496</u>	<u>\$801,841</u>

REAL ESTATE
(Thousands of Dollars)

1976 1975
January 29, January 31,
1977 1976

ASSETS

CURRENT ASSETS

Cash	\$ 3	\$ 52
Accounts receivable	10,124	16,995
Less allowance for losses	(215)	(225)
	<u>9,909</u>	<u>16,770</u>
Supplies and prepaid expenses	137	104

TOTAL CURRENT ASSETS \$ 10,049 \$ 16,926

INVESTMENTS AND OTHER ASSETS (Note G) \$ 8,416 \$ 8,613

PROPERTY AND EQUIPMENT (Note B)

Land	\$ 30,638	\$ 29,121
Buildings and improvements	148,042	161,794
Fixtures and equipment	2,400	2,488
Construction in progress	7,211	2,722
Accumulated depreciation	<u>(59,976)</u>	<u>(58,367)</u>
	<u>\$128,315</u>	<u>\$137,758</u>
	<u>\$146,780</u>	<u>\$163,297</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 2,375	\$ 2,069
Taxes other than income taxes	8,183	8,511
Accrued liabilities	3,431	2,065
Income taxes, currently payable	2,438	(777)
Intercompany accounts	(12,519)	8,704
Current portion of long-term debt	3,411	6,323

TOTAL CURRENT LIABILITIES \$ 7,319 \$ 26,895

LONG-TERM DEBT (Note B) \$114,648 \$117,388

DEFERRED CREDITS —

(Notes D and F) \$ 10,765 \$ 7,426

SHAREHOLDERS' INVESTMENT (Notes B and E) \$ 14,048 \$ 11,588

\$146,780 \$163,297

Statements of Changes in Financial Position

Dayton Hudson Corporation and Subsidiaries

CONSOLIDATED

(Thousands of Dollars)

	1976	1975
FUNDS PROVIDED BY		
Operations:		
Net earnings	\$ 65,663	\$ 51,317
Items not affecting working capital:		
Depreciation and amortization	32,603	29,861
Equity in loss of joint ventures	2,929	2,394
Decrease in non-current deferred income taxes	(65)	(3,736)
Other items	126	1,504
Fund provided by operations	<u>\$101,256</u>	<u>\$ 81,340</u>
Increase in long-term debt	16,755	7,437
Disposals of property and equipment	22,101	2,268
Increase (decrease) in deferred income	4,460	(52)
Proceeds from exercise of stock options	1,209	203
	<u>\$145,781</u>	<u>\$ 91,196</u>
FUNDS USED FOR		
Additions to property and equipment	\$ 79,483	\$ 39,786
Mortgages assumed by purchasers of office properties and prepayments on long-term debt	23,825	16,098
Scheduled reductions of long-term debt	7,812	13,950
Cash dividends	15,557	10,789
Investments and advances to joint ventures	3,543	28
Other, (net)	2,475	(87)
Increase in working capital	13,086	10,632
	<u>\$145,781</u>	<u>\$ 91,196</u>
INCREASES (DECREASES) IN COMPONENTS OF WORKING CAPITAL		
Cash and short-term investments	\$ 15,970	\$ 43,717
Accounts receivable	29,896	28,563
Merchandise inventories	20,693	33,720
Supplies and prepaid expenses	(1,260)	(665)
Increase in current assets	<u>\$ 65,299</u>	<u>\$105,335</u>
Accounts payable	\$ 38,885	\$ 46,256
Accrued expenses and other	17,284	25,335
Income taxes, currently payable	(817)	20,172
Current portion of long-term debt	(3,139)	2,940
Increase in current liabilities	<u>\$ 52,213</u>	<u>\$ 94,703</u>
Net increase	<u>\$ 13,086</u>	<u>\$ 10,632</u>

RETAIL

(Thousands of Dollars)

FUNDS PROVIDED BY		
Operations:		
Net earnings		
Items not affecting working capital:		
Depreciation and amortization		
Increase (decrease) in non-current deferred income taxes		
Other items		
Funds provided by operations		
Increase in long-term debt		
Disposals of property and equipment		
Proceeds from exercise of stock options		
FUNDS USED FOR		
Additions to property and equipment		
Prepayments on long-term debt		
Scheduled reductions of long-term debt		
Cash dividends		
Other, net		
Increase in working capital		
INCREASES (DECREASES) IN COMPONENTS OF WORKING CAPITAL		
Cash and short-term investments		
Accounts receivable		
Merchandise inventories		
Supplies and prepaid expenses		
Increase in current assets		
Accounts payable		
Accrued expenses and other		
Income taxes, currently payable		
Current portion of long-term debt		
Increase in current liabilities		
Net increase		

	1976	1975
.....	\$ 63,203	\$ 51,417
.....	26,122	23,739
.....	1,056	(3,938)
.....	49	1,463
.....	<u>\$ 90,430</u>	<u>\$ 72,681</u>
.....	357	—
.....	2,371	1,515
.....	1,209	203
.....	<u>\$ 94,367</u>	<u>\$ 74,399</u>
.....	\$ 62,715	\$ 30,202
.....	5,916	15,743
.....	6,583	7,635
.....	15,557	10,789
.....	3,209	(458)
.....	387	10,488
.....	<u>\$ 94,367</u>	<u>\$ 74,399</u>
.....	\$ 16,019	\$ 43,853
.....	36,757	22,898
.....	20,693	33,720
.....	(1,293)	(674)
.....	<u>\$ 72,176</u>	<u>\$ 99,797</u>
.....	\$ 38,579	\$ 48,769
.....	16,246	23,936
.....	(4,032)	19,714
.....	(227)	706
.....	21,223	(3,816)
.....	<u>\$ 71,789</u>	<u>\$ 89,309</u>
.....	<u>\$ 387</u>	<u>\$ 10,488</u>

REAL ESTATE

(Thousands of Dollars)

	1976	1975
FUNDS PROVIDED BY		
Operations:		
Net earnings (loss)	\$ 2,460	\$ (100)
Items not affecting working capital:		
Depreciation and amortization	6,481	6,122
Equity in loss of joint ventures	2,929	2,394
Increase (decrease) in non-current deferred income taxes	(1,121)	202
Other items	77	41
Funds provided by operations	<u>\$10,826</u>	<u>\$ 8,659</u>
Principal payments on long-term debt	(4,141)	(4,080)
Funds after debt service	<u>\$ 6,685</u>	<u>\$ 4,579</u>
Other sources:		
Increase in long-term debt	16,398	7,437
Disposals of property and equipment	19,730	753
Increase (decrease) in deferred income	4,460	(52)
.....	<u>\$47,273</u>	<u>\$12,717</u>
FUNDS USED FOR		
Additions to property and equipment	\$16,768	\$ 9,584
Mortgages assumed by purchasers of office properties and prepayments on land contracts	17,909	355
Investments and advances to joint ventures	3,543	28
Increase in other working capital items, net	9,271	2,401
Other, net	(218)	349
.....	<u>\$47,273</u>	<u>\$12,717</u>

Summary of Accounting Policies

Dayton Hudson Corporation and Subsidiaries

Dayton Hudson Corporation uses the accrual basis of accounting, following generally conservative accounting policies. The following is a description of those policies.

Consolidation. The financial statements include the accounts of Dayton Hudson Corporation and subsidiaries, all of which are wholly owned.

Joint Venture Investments. The Corporation accounts for its investment in joint ventures using the equity method, on a one-month lag basis. All the joint ventures of the Real Estate subsidiaries have adopted a calendar year as their fiscal year. See Note G for condensed financial statements of the combined joint ventures.

Financial Data by Line of Business. Dayton Hudson Corporation operates its Retail business through department, low-margin and specialty stores. Through its Real Estate business, it owns, develops and manages regional shopping centers and other commercial properties.

Separate financial statements have been presented for the Retail and Real Estate activities in addition to the Consolidated financial statements in order to describe more clearly the separate effects of the Retail and Real Estate activities on the Corporation's results of operations, flow of funds, and financial position. It is not always possible to total individual captions on the Retail and Real Estate financial statements to agree with Consolidated captions because informative reporting requirements differ widely between Retail and Real Estate. The following allocation methods have been employed to prepare the separate financial statements since legal entities are not exclusively Retail or Real Estate.

Assets, liabilities, revenues and expenses specifically identifiable as either

Retail or Real Estate have been so designated, with those not specifically identifiable allocated as follows:

1. Shopping center property, including related depreciation, owned by Real Estate and utilized by the Corporation's department stores, is allocated to the applicable Retail stores on the basis of the percentage of gross area occupied by the stores. The common mall areas, heating, ventilating and air conditioning facilities of the shopping centers are considered Real Estate properties. Parking lot area is allocated on the basis of leasable space in the center, a practice consistent with industry standards.
2. Secured debt and the related interest expense are allocated on the same basis as the property pledged as collateral to the debt. Unsecured long-term debt has been assigned to Retail.
3. Property taxes are allocated on the basis of gross leasable area, in general accordance with terms of leases with shopping center tenants.
4. Separate income tax provisions are computed for each line of business. Tax benefits and items that require specific treatment in the Consolidated Federal income tax return are assigned to the originating line of business. Deferred income taxes have been assigned to the Real Estate or Retail line of business based on the assets or liabilities associated with those deferred taxes.
5. Corporate Office expenses are allocated based on assets, sales and payroll dollars.

Elsewhere in the annual report, financial information is presented for the department, low-margin and specialty stores groups.

Property and Equipment. Property and equipment is carried at cost less accumulated depreciation.

Depreciation is computed using the straight line method for financial reporting purposes and accelerated methods for tax purposes.

The following estimated lives are used in computing depreciation:

Buildings and land improvements	10 to 50 years
Fixtures and equipment	3 to 20 years
Leasehold improvements	Life of lease or useful life of asset
Tenant allowances	Life of lease

Real Estate capitalizes real property taxes and certain other costs, exclusive of interest, associated with the construction or development of a project. Retail expenses real property taxes and interest.

Costs capitalized by Real Estate are classified as construction in progress until the project becomes operational, at which time the accumulated project costs are transferred to operating property categories and depreciated over the appropriate life. Preliminary development expenses are charged to current operations until there is a commitment for construction of a project. Interest and real estate taxes related to undeveloped land are expensed as incurred.

Accounts Receivable and Allowance for Losses. The Corporation's policy is to write off Retail accounts receivable if any portion of the balance is more than 12 months past due, or when the scheduled payment has not been received for six consecutive months. The allowance for losses for uncollectible customer accounts receivable is based upon historical bad-debt experience and current agings of the accounts. Certain

accounts due beyond one year are classified as current in accordance with industry practice.

Property Sales. The Real Estate line of business follows the installment sales method for recording sales of property.

Employee Benefits. The Corporation and its subsidiaries have retirement plans covering substantially all employees. Pension costs are paid to the plans as accrued by the Corporation. Costs with respect to the plans are actuarially computed using the "aggregate cost method." Under this method, unfunded costs and actuarial gains and losses are spread over future periods. In addition, a Savings and Stock Purchase Plan is made available to substantially all employees who meet the eligibility requirements (primarily based on age and length of service). Employees can contribute up to a maximum of 10% of their current cash compensation to the Plan. Under this Plan the Corporation contributes 50 cents for each dollar deposited by the employee up to a maximum of 2½% of the participant's current cash compensation. Employees become partially vested after participating in the plan for two years. The employee is fully vested after six years.

Other Costs. Expenses incurred in connection with obtaining long-term financing are amortized over the term of the related debt.

Leasing costs are amortized over the life of the lease.

Expenses associated with the opening of new stores are charged against income as they are incurred.

Inventories. Inventories and related cost of sales are accounted for principally by the retail inventory method using the last-in, first-out (LIFO) basis.

Accounts Payable. Drafts outstanding

of \$33,860,000 at January 29, 1977, and \$20,241,000 at January 31, 1976, are classified as accounts payable.

Income Taxes. Gross profit on Retail installment sales is recognized for financial reporting purposes when the sales are recorded. For income tax purposes the installment method of reporting profit on installment sales is used.

Deferred income taxes arising from Retail installment sales are included in the Statement of Financial Position as a current liability. All other deferred taxes are included in "Deferred Credits" in the Statement of Financial Position.

The Corporation and its subsidiaries file a consolidated Federal income tax return.

The income tax provision includes Federal and state income taxes computed at ordinary and capital gains rates where applicable. Investment credit has been used to reduce income taxes in the year the property was placed in service.

Per Share Data. Net earnings per share, Consolidated and Retail, have been computed after provision for dividends on preferred stock, based upon the weighted average number of common shares outstanding during the year (15,890,000 in 1976 and 15,850,000 in 1975). Per share amounts for Real Estate have been computed based on net earnings (loss) of Real Estate operations.

Fiscal Year. The Corporation's fiscal year ends on the Saturday closest to January 31. Fiscal year 1976 ended on January 29, 1977; fiscal year 1975 ended on January 31, 1976. Each of these years consisted of 52 weeks.

Reclassification of Accounts. Certain account balances of prior years have been reclassified to conform with classifications in 1976. None of these reclassifications had an effect on net earnings.

Notes to Financial Statements

Dayton Hudson Corporation and Subsidiaries

A. INVENTORIES

(Thousands of Dollars)

Inventories are accounted for principally by the retail inventory method using the last-in, first-out (LIFO) method.

Merchandise inventories detailed by types of stores are as follows:

	Department Stores	Low-Margin Stores	Specialty Stores	Total
January 29, 1977	\$106,006	\$92,534	\$39,182	\$237,722
January 31, 1976	\$ 99,257	\$82,481	\$35,291	\$217,029

If the inventories had been valued by use of the first-in, first-out (FIFO) retail method, they would have been higher as follows:

	Department Stores	Low-Margin Stores	Specialty Stores	Total
January 29, 1977	\$ 28,616	\$13,504	\$ 8,629	\$ 50,749
January 31, 1976	\$ 25,154	\$10,621	\$ 7,289	\$ 43,064

B. LONG-TERM DEBT

A summary of long-term debt due beyond one year is as follows:

(Thousands of Dollars)	January 29, 1977			January 31, 1976		
	Consolidated	Retail	Real Estate	Consolidated	Retail	Real Estate
Bank Term Loan . . .	\$ 15,625	\$ 15,625	\$ -	\$ 18,750	\$ 18,750	\$ -
Sinking Fund Debentures	42,270	42,270	-	46,020	46,020	-
5¾% Sinking Fund Notes — Payable \$800,000 annually to 1982	4,800	4,800	-	5,600	5,600	-
Other unsecured notes—maturing at various dates to 1985 and bearing interest from 5% to 8%	3,158	3,158	-	3,597	3,597	-
Mortgage Notes, notes and contracts for purchase of real estate—payable over periods ranging to 30 years from inception and bearing interest from 4¼% to 9½%	160,476	45,828	114,648	167,244	49,856	117,388
	\$226,329	\$111,681	\$114,648	\$241,211	\$123,823	\$117,388

The Bank Term Loan bears interest at a variable rate not to exceed an average of 7½% over the term of the Agreement. The balance is payable in equal quarterly installments with final maturity on January 3, 1983. The Corporation is not required to maintain compensating balances.

The Sinking Fund Debentures bear interest at 7¼% (\$21,250,000) and 9¼% (\$21,020,000), and are redeemable through minimum annual sinking fund payments of \$1.25 million each.

The Corporation terminated its \$40 million Revolving Credit Agreement in July 1976. Prior to that time, the Corporation was expected to and did maintain average net collected balances of approximately \$3.75 million. These balances served as part of the Corporation's operating cash balances, and were at all times legally subject to withdrawal without restrictions. A commitment fee of ½ of 1% per annum was payable on the unused commitment balance.

The 7¼% and 9¼% Sinking Fund Debentures, the Bank Term Loan and the 5¾% Sinking Fund Notes each contain varying provisions and restrictions for the protection of the lenders relating to working capital, sale of receivables, dividends and other restricted payments, and other restrictive covenants. Under the most restrictive of these provisions, \$169.7 million of retained earnings at January 29, 1977, was available for dividends and other restricted payments.

The carrying value of land, buildings and equipment pledged as collateral to mortgage notes and contracts aggregated approximately \$158 million at January 29, 1977.

Aggregate annual principal payments of long-term debt for the next five years are as follows (in thousands): 1977 — \$10,820; 1978 — \$10,837; 1979 — \$11,248; 1980 — \$11,808; and 1981 — \$13,734.

The Corporation has negotiated a private placement agreement to borrow \$50 million at an interest rate of 8¾% annually — \$15 million on November 15, 1977, and the remaining \$35 million by November 15, 1979. Sinking fund payments begin in 1983 with final maturity in 1999.

C. LINES OF CREDIT

The Corporation had \$105.5 million in unsecured lines of credit with 15 banks at January 29, 1977. Borrowings under the lines of credit are at the prime interest rate. In compensation for the line of credit arrangements, the Corporation was expected to and did maintain average net collected compensating balances (ledger balances less float, as computed by the banks) of approximately \$8.2 million. These balances were at all times legally subject to withdrawal with no restrictions, and served as part of the Corporation's operating cash balance. The Corporation's only short term borrowing in 1976 was \$7 million of commercial paper for five days in the fourth quarter at an interest rate of 4¾%. In February 1977, the Corporation reduced its unsecured lines of credit to \$71.5 million.

D. DEFERRED INCOME

Deferred income from sales of Real Estate properties of approximately \$5.1 and \$.7 million have been included in Consolidated and Real Estate deferred credits at January 29, 1977, and January 31, 1976.

E. SHAREHOLDERS' INVESTMENT

(Thousands of Dollars)

	Line of Business		Consolidated				
	Retail	Real Estate	Total	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings
Balance February 1, 1975	\$344,423	\$11,688	\$356,111	\$607	\$15,848	\$39,341	\$300,315
Net earnings (loss)	51,417	(100)	51,317				51,317
Cash Dividends:							
Common Stock (\$.66 a share)	(10,461)		(10,461)				(10,461)
Preferred Stock	(328)		(328)				(328)
Common Stock Purchased for Treasury (1,371 shares)	(25)		(25)		(2)	(20)	(3)
Conversions of Preferred Stock				(10)	3	7	
Forfeitures of Restricted Common Shares	(421)		(421)			(421)	
Stock Options	203		203		10	193	
Balance January 31, 1976	\$384,808	\$11,588	\$396,396	\$597	\$15,859	\$39,100	\$340,840
Net earnings	63,203	2,460	65,663				65,663
Cash Dividends:							
Common Stock (\$.96 a share)	(15,252)		(15,252)				(15,252)
Preferred Stock	(305)		(305)				(305)
Conversions of Preferred Stock				(55)	15	40	
Stock Options	1,209		1,209		43	1,166	
Balance January 29, 1977	\$433,663	\$14,048	\$447,711	\$542	\$15,917	\$40,306	\$390,946

Preferred Stock — Authorized 200,000 shares voting without par value issuable in series, outstanding at January 29, 1977, and January 31, 1976, 27,175 and 32,675 shares, respectively, of \$5 Cumulative Convertible Preferred Stock and 27,000 shares of \$6 Cumulative Convertible Preferred Stock. Both issues have a liquidation value of \$100 per share and are convertible into Common Stock at 2 $\frac{2}{3}$ shares for each share of Preferred Stock.

Common Stock — Authorized 20,000,000 shares par value \$1 a share; 16,081,118 shares issued less 164,576 and 221,767

shares in Treasury at January 29, 1977, and January 31, 1976, respectively.

Restricted shares of Common Stock previously issued under a terminated Key Executive Stock Plan of a division were repurchased by the Corporation from terminating executives. In 1975 the related prepaid compensation was cancelled and additional paid-in capital was charged for the excess of fair market value over the issuance price for shares previously repurchased.

Notes to Financial Statements (continued)

CONDENSED COMBINED RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 1976 AND 1975

	1976	1975
Operating Properties		
Rental revenue	\$ 9,546	\$ 3,996
Operating expenses	4,308	2,148
	<u>\$ 5,238</u>	<u>\$ 1,848</u>
Other (Income) Expense		
Interest expense (excluding interest capitalized of \$911 in 1976 and \$2,199 in 1975)	\$ 7,586	\$ 3,772
Depreciation and amortization	2,711	1,155
Development expense	967	783
Gain from property sales	(376)	—
Other, net	688	189
	<u>\$ 11,576</u>	<u>\$ 5,899</u>
EARNINGS (LOSS)	<u>\$ (6,338)</u>	<u>\$ (4,051)</u>

F. INCOME TAX EXPENSE

(Thousands of Dollars)

The components of the provision for income taxes are as follows:

	1976			1975		
	Total	Federal	State	Total	Federal	State
Consolidated:						
Current	\$62,568	\$52,336	\$10,232	\$53,116	\$44,875	\$8,241
Deferred	8,030	7,444	586	2,585	2,386	199
Total	<u>\$70,598</u>	<u>\$59,780</u>	<u>\$10,818</u>	<u>\$55,701</u>	<u>\$47,261</u>	<u>\$8,440</u>
Retail:						
Current	\$59,317	\$49,731	\$ 9,586	\$53,429	\$45,149	\$8,280
Deferred	9,151	8,444	707	2,383	2,220	163
Total	<u>\$68,468</u>	<u>\$58,175</u>	<u>\$10,293</u>	<u>\$55,812</u>	<u>\$47,369</u>	<u>\$8,443</u>
Real Estate:						
Current	\$ 3,251	\$ 2,605	\$ 646	\$ (313)	\$ (274)	\$ (39)
Deferred	(1,121)	(1,000)	(121)	202	166	36
Total	<u>\$ 2,130</u>	<u>\$ 1,605</u>	<u>\$ 525</u>	<u>\$ (111)</u>	<u>\$ (108)</u>	<u>\$ (3)</u>

Deferred income taxes are provided for income and expenses which are recognized in different accounting periods for financial reporting than for income tax purposes. The timing differences and the related deferred taxes are as follows:

	1976			1975		
	Consolidated	Retail	Real Estate	Consolidated	Retail	Real Estate
Excess of tax over book depreciation	\$ 357	\$ 649	\$ (292)	\$1,930	\$1,148	\$782
Deferred income on installment sales	8,019	8,095	(76)	5,958	6,321	(363)
Other	(346)	407	(753)	(5,303)	(5,086)	(217)
Total	<u>\$8,030</u>	<u>\$9,151</u>	<u>\$(1,121)</u>	<u>\$2,585</u>	<u>\$2,383</u>	<u>\$202</u>

Based on the Corporation's anticipated future operations and expenditures and current income tax policies, no substantial reduction in the deferred income tax balance is anticipated in the succeeding three years.

G. INVESTMENT IN JOINT VENTURES

The Real Estate line of business had partnership interests ranging from 25% to 75% in twelve joint ventures at January 29, 1977. The major commitment to these joint ventures involves six regional shopping centers — two in operation and four under development — as discussed in the Operating Review on Page 11. Condensed combined financial statements of the joint ventures follow (in thousands):

RECONCILIATION OF DAYTON HUDSON REAL ESTATE SHARE OF EARNINGS (LOSS) OF JOINT VENTURES

Dayton Hudson Real Estate's Share of Loss (Note 2)	\$ (2,693)	\$ (1,771)
Interest capitalized by joint venture	(303)	(733)
Other adjustments	67	110
Equity in loss as reflected in accompanying Real Estate and Consolidated results of operations	<u>\$ (2,929)</u>	<u>\$ (2,394)</u>

CONDENSED COMBINED BALANCE SHEET DECEMBER 31, 1976 AND 1975

ASSETS		
Cash and receivables	\$ 10,047	\$ 8,467
Shopping centers and commercial property	67,999	25,999
Shopping centers under construction	20,868	38,506
Undeveloped land	34,096	33,726
	<u>133,010</u>	<u>106,698</u>
Less: Accumulated depreciation	(11,496)	(8,813)
	<u>\$121,514</u>	<u>\$ 97,885</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 15,713	\$ 10,420
Payable to Dayton Hudson Real Estate	4,601	10,072
Long-term debt (Note 1)	99,144	72,386
	<u>119,458</u>	<u>92,878</u>
PARTNERS' EQUITY		
Dayton Hudson Real Estate	1,049	2,039
Other partners	1,007	2,968
	<u>2,056</u>	<u>5,007</u>
	<u>\$121,514</u>	<u>\$ 97,885</u>

RECONCILIATION OF DAYTON HUDSON REAL ESTATE INVESTMENT AND ADVANCES TO JOINT VENTURES

As shown above	\$ 1,049	\$ 2,039
Advances to joint ventures	1,851	—
Cumulative effect of adjusting to Dayton Hudson Real Estate's accounting policies	57	305
Difference in basis of contributed property	(1,872)	(1,872)
As reflected in accompanying Real Estate and Consolidated statement of financial position	<u>\$ 1,085</u>	<u>\$ 472</u>

(1) In certain situations, because of competitive market conditions and for advantageous financial arrangements, the Dayton Hudson Real Estate Subsidiaries have guaranteed repayment of joint venture debt until certain conditions have been met. At December 31, 1976, the Real Estate Subsidiaries were contingently liable for \$16.6 million of joint venture debt.

(2) The tax benefit resulting from Dayton Hudson Real Estate's share of the loss is reflected in the provision for income taxes in the accompanying Real Estate and Consolidated financial statements.

(3) Financial statements of the joint ventures were examined by Ernst & Ernst for 10% of the combined assets, 83% by other auditors and 7% were unaudited.

H. PENSION AND SAVINGS AND STOCK PURCHASE PLANS

Contributions to the Corporation's pension plans for fiscal 1976 and 1975 were \$8.0 million and \$6.8 million, respectively. The plans' combined assets and liabilities for 1976 and 1975 are as follows:

(Thousands of Dollars)	December 31	
	1976	1975
ASSETS		
Insurance Contracts	\$11,368	\$11,420
Fixed Income Securities	25,963	18,971
Equity Securities	36,982	40,141
Total Assets at Cost (market value: 1976 — \$81,620, 1975 — \$69,287)	\$76,313	\$70,532
LIABILITIES		
Vested Benefits	\$88,443	\$81,897
Accrued Benefits, Not Vested	3,420	1,712
Unfunded Liability	(15,550)	(13,077)
Total Liabilities	\$76,313	\$70,532

Contributions to the Savings and Stock Purchase Plan by the Corporation were \$2.2 million in 1976 and \$2.0 million in 1975. The condensed balance sheet of the Plan is as follows:

(Thousands of Dollars)	December 31		January 31
	1976	1976	1976
ASSETS			
Investments, at market value:			
Dayton Hudson Stock Fund	\$12,263	\$11,178	
Fixed Income Fund	8,294	5,499	
Equity Fund	23,607	20,738	
Total Assets	\$44,164	\$37,415	
LIABILITIES			
Funds payable for securities and plan withdrawals			
	\$ 738	\$ 881	
Plan equity	43,426	36,534	
Total Liabilities	\$44,164	\$37,415	

I. STOCK OPTION PLANS

The Corporation has three stock option plans for key employees. No new options will be granted under two of these plans — the Qualified Stock Option Plan adopted in 1967 or the 1972 Employee Stock Option Plan as amended. Under the 1972 Plan certain eligible employees were granted qualified or non-qualified stock options, or both, at 100% of market at date of grant. Non-qualified stock options have been granted at 100% of market at date of grant to certain key employees under the Executive Long-Term Incentive Plan adopted in 1976. The options that have been issued under these plans are exercisable in cumulative annual installments of 25% of the optioned shares after the first year with the qualified options expiring in five years and the non-qualified options expiring in ten years.

The 1972 Plan also granted stock appreciation rights to option holders, permitting them to surrender exercisable non-qualified options in exchange for shares of the Corporation's stock having an aggregate value, at the date of surrender, equal to the difference between the option price and the market value of the shares covered by the surrendered options. Compensation expense is accrued in anticipation of settlement of these rights over the period they become exercisable. At January 29, 1977, outstanding options for 229,567 shares had stock appreciation rights attached. Expense of \$.9 million and \$2.5 million was charged against opera-

tions in 1976 and 1975 respectively. Because of a possible adverse impact on earnings resulting from the exercise of stock appreciation rights, the Corporation is encouraging option holders to exercise options rather than the related stock appreciation rights.

The 1976 Plan also provides for the granting of performance shares to certain key employees. All or a portion of the shares may be earned at the end of a four year period beginning with the fiscal year in which the shares were granted. The number of shares earned is dependent upon the relative level of achievement of certain goals, established at the beginning of the four year performance period. Compensation expense of \$0.1 million was accrued in 1976 in expectation that the 17,700 performance shares granted under the 1976 Plan will be earned. Under the Plan, 500,000 shares were originally reserved for issuance. Shares available for grant at January 29, 1977, were 394,625.

Shares under option were as follows:

	1976		1975	
	Number of Shares	Price Per Share	Number of Shares	Price Per Share
Outstanding — beginning of year	333,191	\$ 7.94 to \$37.188	277,390	\$ 7.94 to \$37.188
Granted	91,100	\$28.50	114,975	\$18.05 to \$22.125
Cancelled	26,776	\$ 7.94 to \$37.188	47,204	\$ 7.94 to \$28.00
Exercised	56,473	\$ 7.94 to \$33.125	11,970	\$ 7.94 to \$11.25
Outstanding — end of year	341,042	\$ 7.94 to \$28.50	333,191	\$ 7.94 to \$37.188
Number of Shares Exercisable	108,241	\$ 7.94 to \$26.82	90,077	\$ 7.94 to \$37.188

J. GENERAL DESCRIPTION OF THE IMPACT OF INFLATION (UNAUDITED)

Inflation has been and will continue to be a factor affecting management's decisions. Although inflation has caused upward pressures on expenses and cost of sales, management has generally been able to offset such increases through operating efficiencies and higher selling prices.

Under the last-in, first-out (LIFO) inventory method followed by the Corporation the impact of inflation on cost of sales is effectively charged against current year net income.

While the cumulative impact of inflation over a number of years has resulted in higher estimated costs for the replacement of existing property and equipment, these increases have been partially offset by changes in design and construction of stores and centers, improvements in fixturing, and technological advances in equipment which often increase productivity. Although management believes the replacement of existing assets with newer more efficient assets would reduce operating expenses, the savings cannot be quantified.

The Corporation's annual report Form 10-K (a copy of which is available upon request) contains quantitative information with respect to estimated replacement cost of inventories and property and equipment at January 29, 1977, and the estimated effect of such costs on cost of sales and depreciation expense for the year then ended.

Notes to Financial Statements (continued)

K. COMMITMENTS AND CONTINGENCIES

Rental expense on long-term leases included in the results of operations, net of sublease income, is as follows:

(Thousands of Dollars)	1976	1975
Financing leases:		
Minimum rentals	\$ 3,798	\$ 3,770
Contingent rentals	538	599
	\$ 4,336	\$ 4,369
Other leases:		
Minimum rentals	\$14,076	\$12,053
Contingent rentals	2,171	1,697
	\$16,247	\$13,750
Total Rentals	\$20,583	\$18,119

Sublease income (in thousands) of \$1,109 (financing leases — \$520, other leases — \$589) for 1976 and \$1,068 (financing leases — \$533, other leases — \$535) for 1975 has been deducted from total rentals in determining the above expense.

Financing leases have not been capitalized in the accompanying financial statements.

Contingent rentals are based upon a percentage of sales. Most leases require additional payments for real estate taxes, insurance and other expenses which are included in occupancy costs in the accompanying results of operations.

Annual minimum rentals on long-term noncancelable leases of the Corporation and consolidated subsidiaries at January 29, 1977, net of rentals to be received from noncancelable subleases, are as follows:

(Thousands of Dollars)	Total	Financing Leases		Other Leases	
		Real Property	Personal Property	Real Property	Personal Property
1977	\$18,862	\$ 2,992	\$907	\$13,966	\$997
1978	18,322	3,102	774	13,916	530
1979	17,389	3,173	552	13,452	212
1980	17,050	3,129	552	13,258	111
1981	16,815	3,093	552	13,110	60
1982-1986	67,840	14,550	213	53,064	13
1987-1991	36,146	13,136		23,010	
1992-1996	18,862	10,841		8,021	
After 1996	19,324	11,758		7,566	

The above minimum rentals reflect the Corporation's gross lease obligations reduced by sublease income from real property annually averaging (in thousands) \$891 for 1977-1981 and aggregating \$2,385 for 1982-1986; \$1,044 for 1987-1991; \$477 for 1992-1996, and \$369 for years after 1996. Substantially all leases are for property used by the Retail companies.

The estimated present values and the related interest rates of net minimum rental commitments for financing leases at January 29, 1977, and January 31, 1976 are as follows (in thousands):

Interest Rates				Present Value	
Weighted Average		Range		Jan. 29, 1977	Jan. 31, 1976
1976	1975	1976	1975		
7.7%	7.6%	4%-10%	4%-10%	\$35,971	\$36,273

Substantially all financing leases are for real property.

If all financing leases had been capitalized, net income for 1976 and 1975 would have been reduced less than 0.1% for both years.

The Corporation plans to implement the provisions of Financial Accounting Standards Board Statement No. 13 "Accounting for Leases" in its 1977 Annual Report. No material reduction in reported net earnings is anticipated to result from such compliance.

Commitments for construction of new facilities and the purchase of real estate amounted to approximately \$40.6 million at January 29, 1977.

A Real Estate subsidiary is contingently liable for \$11,027,000 of mortgage debt on certain office properties sold in 1976. The purchaser has agreed to indemnify the subsidiary for any costs it may incur in relation to the mortgages.

See Note G for a discussion of the commitments related to the Corporation's joint ventures.

The Internal Revenue Service has completed its audit of the Corporation's 1970 and 1971 Federal income tax returns. The Revenue Service's examination of the Corporation's 1972 and 1973 Federal income tax returns is currently in progress. With respect to the tax years 1970 and 1971, the Revenue Service has proposed additional taxes of \$7.3 million plus interest thereon. At the request of the Revenue Service, the Corporation has paid \$1 million of additional tax with respect to certain nondisputed items included in the \$7.3 million balance. The Corporation is currently contesting and has filed a protest with the Internal Revenue Service's Appellate Division with respect to \$5.9 million. The most significant adjustment being contested relates to the Revenue Service's proposal to lengthen the depreciable lives of real property. Resolution of any of the disputed issues unfavorably to the position of the Corporation would have a negative impact on its cash flow but, individually or in aggregate, would have no material impact on reported income.

The nature and scope of the Corporation's business brings its properties, operations and representatives into regular contact with the general public and a variety of other business and governmental entities, all of which inherently subject the Corporation to hazards of litigation in the ordinary course of business. Giving effect to the insurance in place with respect to a portion of that litigation, and noting that the ultimate consequences of any particular litigation may not be presently conclusively determinable, it is the opinion of the management of the Corporation and of its legal counsel that none of the current litigation involving the Corporation or any of its subsidiaries or divisions will have a material effect on the operations or financial condition of the Corporation.

L. QUARTERLY REVIEW (UNAUDITED)

The following is a summary of unaudited quarterly results of operations for the two years ended January 29, 1977, and January 31, 1976. The quarterly operating results for the year ended January 31, 1976, have not been subjected to a limited review by our independent accountants.

(Millions, except earnings per share)

	Consolidated		Retail		Real Estate	
	1976	1975	1976	1975	1976	1975
Revenues (1)						
First	\$ 386.5	\$ 336.4	\$ 377.2	\$ 328.5	\$ 9.3	\$ 7.9
Second	421.0	388.1	410.6	379.2	10.4	8.9
Third	458.5	414.9	447.6	405.3	10.9	9.6
Fourth	632.5	551.1	622.4	541.2	10.1	9.9
Total Year	\$1,898.5	\$1,690.5	\$1,857.8	\$1,654.2	\$40.7	\$36.3
Gross Profit (2)						
First	\$ 111.8	\$ 94.4	\$ 104.5	\$ 88.3	\$ 5.4	\$ 4.1
Second	118.4	109.6	110.8	103.1	5.6	5.0
Third	140.7	121.5	132.0	115.1	4.0	4.2
Fourth	213.8	198.6	206.6	190.6	7.1	6.9
Total Year	\$ 584.7	\$ 524.1	\$ 553.9	\$ 497.1	\$22.1	\$20.2
Net Earnings						
First	\$ 6.6	\$ 2.7	\$ 6.5	\$ 2.8	\$.1	\$ (.1)
Second	8.3	7.3	8.3	7.4	—	(.1)
Third	15.1	10.7	14.9	10.9	.2	(.2)
Fourth	35.7	30.6	33.5	30.3	2.2	.3
Total Year	\$ 65.7	\$ 51.3	\$ 63.2	\$ 51.4	\$ 2.5	\$ (.1)
Earnings Per Share						
First	\$.41	\$.17	\$.40	\$.17	\$.01	\$ —
Second	.52	.45	.52	.46	—	(.01)
Third	.95	.67	.94	.68	.01	(.01)
Fourth	2.23	1.93	2.10	1.92	.13	.01
Total Year	\$ 4.11	\$ 3.22	\$ 3.96	\$ 3.23	\$.15	\$ (.01)

(1) Consolidated and Real Estate revenues have been restated to exclude landholding revenues.

(2) Consolidated and Retail — revenues less cost of sales, buying and occupancy.

Real Estate — operating income, before depreciation, interest and income taxes.

It is not always possible to total individual captions for Retail and Real Estate to agree with Consolidated captions because informative reporting requirements differ widely between Retail and Real Estate.

LIFO inventories at year-end 1975 were higher than projected during the year. If 1975 interim results were adjusted to reflect the actual level of inventories at January 31, 1976, Consolidated and Retail earnings per share for the first, second and third quarters would have been higher than reported by \$.07, \$.08 and \$.08, respectively, and fourth-quarter earnings lower by \$.23.

M. CREDIT SALES

Credit sales were \$742.1 and \$665.1 million for 1976 and 1975, respectively. Regular charge account sales, including revolving charge accounts, were approximately 96% of total credit sales. Revolving installment accounts make up the balance of credit sales. The provision for bad debts on credit sales for 1976 and 1975 was \$7.1 and \$9.4 million, respectively.

N. ALTERNATIVE ACCOUNTING POLICY

The Real Estate line of business follows the practice of expensing interest incurred on construction in progress and all costs incurred on land held for future development (interest and real property taxes). Most comparable companies in the real estate industry follow a policy of capitalizing these costs. If Dayton Hudson followed this alternative accounting policy for its Real Estate line of business and joint ventures, approximately \$2,554,000 in 1976 and \$2,725,000 in 1975 of costs expensed would have been capitalized. This would have had the effect of increasing net earnings per share approximately \$.09 in 1976 and \$.08 in 1975.

Report of Independent Auditors

Board of Directors and Shareholders
Dayton Hudson Corporation
Minneapolis, Minnesota

We have examined the statements of financial position of Dayton Hudson Corporation and subsidiaries and of their Retail and Real Estate Operations as of January 29, 1977 and January 31, 1976, and the related statements of results of operations, shareholders' investment and changes in financial position for the years then ended. We have also examined the Ten-Year Comparisons and the Operating Results included in the Five-Year Line-of-Business Comparisons on pages 30-33. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Dayton Hudson Corporation and subsidiaries at January 29, 1977, and January 31, 1976, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. It is also our opinion that the financial statements referred to above of the Corporation's Retail and Real Estate Operations are presented fairly in conformity with the accounting practices described in the Summary of Accounting Policies set forth in the financial statements, applied on a consistent basis. Further, it is our opinion that the Ten-Year Comparisons and the Operating Results presented in the Five-Year Line-of-Business Comparisons fairly present the information set forth therein.

Ernst & Ernst

Minneapolis, Minnesota
March 18, 1977

E&E

Ten-Year Comparisons

Dayton Hudson Corporation and Subsidiaries

The Ten-Year Comparisons should be read in conjunction with the Financial Review and Financial Statements.

- (a) Restated to exclude landholding revenues.
- (b) Earnings data for 1972 include extraordinary expense of \$.7 million (\$.04 per share).
- (c) On a historical basis after giving retroactive effect to stock splits.

TOTAL REVENUES (Millions)^(a)

Cost of retail sales, buying and occupancy

Interest expense

EARNINGS BEFORE INCOME TAXES (Millions)^(b)

INCOME TAXES — Federal, state and local (Millions)

NET EARNINGS (Millions)^(b)

DEPRECIATION AND AMORTIZATION (Millions)

RETURN ON BEGINNING SHAREHOLDERS' EQUITY

PER COMMON SHARE

— Net earnings^(b)

— Cash dividend^(c)

— Book value

CAPITAL EXPENDITURES (Millions)

YEAR END FINANCIAL POSITION (Millions)

Working capital

Property and equipment, net of depreciation:

Retail

Real Estate

Total

Long-term debt:

Retail

Real Estate

Total

Shareholders' Equity

AVERAGE COMMON SHARES OUTSTANDING (Thousands)

1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
\$1,898.5	1,690.5	1,500.4	1,396.0	1,287.1	1,111.0	965.4	883.6	808.6	726.2
\$1,313.8	1,166.4	1,066.2	985.8	917.5	784.8	684.6	621.2	569.0	511.2
\$ 17.9	18.3	23.5	20.7	18.5	18.0	17.5	12.2	6.4	5.7
\$ 136.3	107.0	50.1	53.3	53.9	45.7	37.6	48.1	51.0	46.6
\$ 70.6	55.7	24.9	26.0	26.4	21.0	18.6	24.4	26.4	22.0
\$ 65.7	51.3	25.2	27.3	27.5	24.7	19.0	23.7	24.6	24.6
\$ 32.6	29.9	27.6	25.3	24.4	22.6	19.7	16.2	14.0	13.0
16.6%	14.4	7.4	8.4	9.2	8.6	7.0	9.3	10.3	11.6
\$ 4.11	3.22	1.57	1.70	1.70	1.52	1.16	1.49	1.54	1.58
\$.96	.66	.58½	.54	.52	.50	.50	.50	.40	.16
\$ 27.79	24.62	22.09	21.10	19.88	18.70	17.69	16.84	15.94	14.86
\$ 79.5	39.8	58.1	55.8	36.9	33.3	56.8	92.8	52.9	32.5
\$ 242.8	229.7	219.1	229.5	226.3	175.7	159.2	148.8	135.0	134.8
\$ 310.7	276.5	271.6	259.0	248.5	243.8	234.7	206.7	159.5	123.6
\$ 128.3	137.7	133.3	122.9	112.6	110.7	113.4	105.8	79.2	78.5
\$ 439.0	414.2	404.9	381.9	361.1	354.5	348.1	312.5	238.7	202.1
\$ 111.7	123.8	147.2	164.0	176.4	153.0	146.5	124.4	80.4	51.0
\$ 114.6	117.4	116.6	104.8	82.6	74.2	76.1	69.3	38.4	47.3
\$ 226.3	241.2	263.8	268.8	259.0	227.2	222.6	193.7	118.8	98.3
\$ 447.7	396.4	356.1	340.5	324.7	305.8	289.6	269.7	255.8	237.7
15,890	15,850	15,850	15,890	16,017	16,017	16,020	15,814	15,850	15,262

Five-Year Line-of-Business Comparisons

Dayton Hudson Corporation and Subsidiaries

- (a) Earnings data for 1972 exclude extraordinary expense of \$.7 million
 (b) Deducted in determining earnings contributions

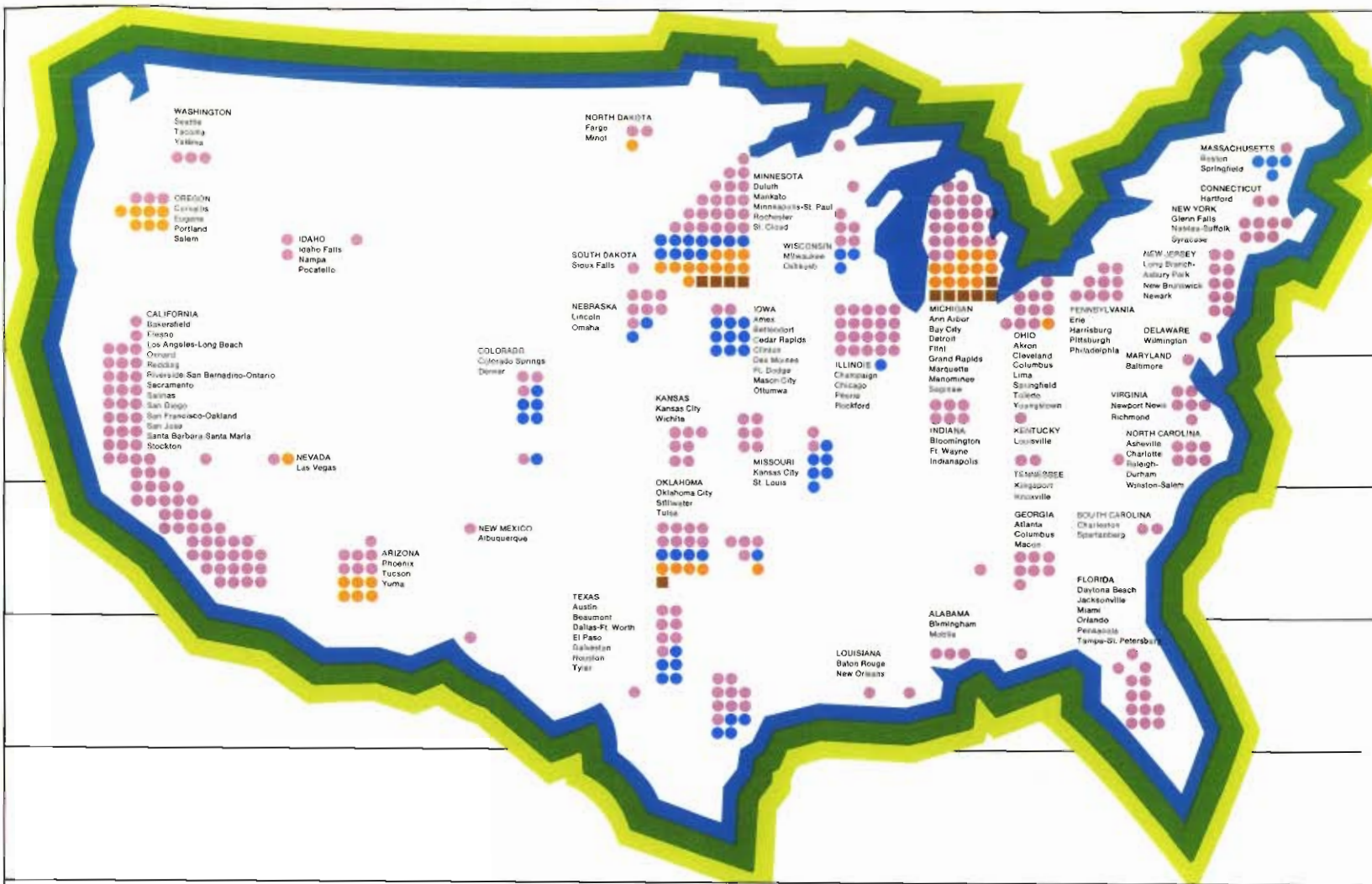
RETAIL

	1976		1975		1974	
	Dollar Amount	Percent of Total	Dollar Amount	Percent of Total	Dollar Amount	Percent of Total
OPERATING RESULTS (Millions)						
Revenues						
Department Stores	\$ 952.3	51.3%	\$ 888.7	53.7%	\$ 823.3	55.9%
Low-Margin Stores	725.2	39.0	616.2	37.3	524.6	35.6
Specialty Stores	180.3	9.7	149.3	9.0	124.3	8.5
Total	<u>\$1,857.8</u>	<u>100.0%</u>	<u>\$1,654.2</u>	<u>100.0%</u>	<u>\$1,472.2</u>	<u>100.0%</u>
Earnings Contribution (Before expenses listed below)						
Department Stores	\$ 93.3	61.0%	\$ 82.2	62.9%	\$ 51.5	72.0%
Low-Margin Stores	46.8	30.6	38.6	29.6	17.2	24.1
Specialty Stores	12.8	8.4	9.8	7.5	2.8	3.9
Total	<u>\$ 152.9</u>	<u>100.0%</u>	<u>\$ 130.6</u>	<u>100.0%</u>	<u>\$ 71.5</u>	<u>100.0%</u>
Corporate Expense	12.5		14.6		6.1	
Interest Expense	8.7		8.8		14.3	
Earnings Before Income Taxes	<u>\$ 131.7</u>		<u>\$ 107.2</u>		<u>\$ 51.1</u>	
Income Taxes	68.5		55.8		25.6	
Net Earnings	<u>\$ 63.2</u>		<u>\$ 51.4</u>		<u>\$ 25.5</u>	
OTHER INFORMATION						
Earnings Contribution as a Percent of Revenues						
Department Stores	9.8%		9.2%		6.3%	
Low-Margin Stores	6.5		6.3		3.3	
Specialty Stores	7.1		6.6		2.3	
Number of Stores						
Department Stores	44		41		39	
Low-Margin Stores	56		52		50	
Specialty Stores	313		273		231	
Total Square Feet (Thousands)						
Department Stores	10,303		9,839		9,651	
Low-Margin Stores	6,243		5,923		5,600	
Specialty Stores	1,250		1,115		1,036	
Capital Expenditures (Millions)						
Department Stores	\$ 36.0		\$ 19.3		\$ 27.2	
Low-Margin Stores	21.9		6.2		4.9	
Specialty Stores	4.8		4.7		4.5	
Total	<u>\$ 62.7</u>		<u>\$ 30.2</u>		<u>\$ 36.6</u>	
Start-Up Costs (Expensed as Incurred) (Millions) ^(b)						
Department Stores	\$ 6.7		\$ 2.8		\$ 6.1	
Low-Margin Stores	3.3		1.3		.7	
Specialty Stores	1.1		1.0		1.1	
Total	<u>\$ 11.1</u>		<u>\$ 5.1</u>		<u>\$ 7.9</u>	

REAL ESTATE

1973		1972(a)	
Dollar Amount	Percent of Total	Dollar Amount	Percent of Total
\$ 793.5	57.9%	\$ 732.9	58.0%
470.3	34.4	440.4	34.9
105.7	7.7	89.5	7.1
<u>\$1,369.5</u>	<u>100.0%</u>	<u>\$1,262.8</u>	<u>100.0%</u>
\$ 55.0	77.5%	\$ 50.1	72.2%
13.0	18.3	16.6	23.9
3.0	4.2	2.7	3.9
<u>\$ 71.0</u>	<u>100.0%</u>	<u>\$ 69.4</u>	<u>100.0%</u>
7.4		6.5	
13.4		13.2	
<u>\$ 50.2</u>		<u>\$ 49.7</u>	
25.0		24.4	
<u>\$ 25.2</u>		<u>\$ 25.3</u>	
6.9%		6.8%	
2.8		3.8	
2.8		3.0	
36		33	
50		50	
179		130	
9,280		9,050	
5,593		5,548	
802		627	
\$ 24.8		\$ 9.6	
4.5		14.9	
4.0		2.5	
<u>\$ 33.3</u>		<u>\$ 27.0</u>	
\$ 4.8		\$ 2.3	
.9		4.0	
1.0		.5	
<u>\$ 6.7</u>		<u>\$ 6.8</u>	

	1976	1975	1974	1973	1972
OPERATING RESULTS (Millions)					
Operating Properties					
Rental revenue	\$ 40.8	\$ 36.3	\$ 28.2	\$ 26.5	\$ 24.3
Operating income, before depreciation, interest and income taxes	22.1	20.2	14.3	15.0	13.2
Other (Income) Expense					
Interest expense					
Operating	8.5	8.8	7.1	5.9	4.7
Development .....	.3	.4	1.6	.8	.2
Other .....	.5	.3	.5	.5	.3
Total Interest	9.3	9.5	9.2	7.2	5.2
Depreciation and amortization	6.5	6.1	4.9	4.5	4.7
Development expense	1.9	2.0	1.4	2.2	1.8
Gain from property sales	(3.3)	(.9)	(2.3)	(3.6)	(5.1)
Other, net .....	.2	1.3	1.0	1.6	1.7
Equity in loss of joint ventures	2.9	2.4	1.1	—	—
Earnings (loss) before income taxes ...	\$ 4.6	\$ (.2)	\$ (1.0)	\$ 3.1	\$ 4.9
Income taxes	2.1	(.1)	(.6)	1.0	2.0
Net earnings (loss)	\$ 2.5	\$ (.1)	\$ (.4)	\$ 2.1	\$ 2.9
Funds provided by operations	\$ 10.8	\$ 8.7	\$ 5.2	\$ 8.2	\$ 8.1
Capital expenditures	\$ 16.8	\$ 9.6	\$ 21.5	\$ 22.5	\$ 9.9
Tenant leasable square feet	3.7	4.2	4.1	3.6	3.3
Undeveloped land at year end (Thousands of acres)	2.6	2.5	2.7	3.0	2.6



DEPARTMENT STORES

Hudson's (1881)*

	Total Sq. Ft. (000)	Date Opened
Joseph L. Hudson, Jr., Chairman		
Edwin G. Roberts, President		
Downtown Detroit, Mich.	1,562	1881
Northland Center, Southfield, Mich.	619	1954
Eastland Center, Harper Woods, Mich.	487	1957
Pontiac Mall, Pontiac, Mich.	283	1962
Westland Center, Westland, Mich.	356	1965
Oakland Mall Center, Troy, Mich.	380	1968
Genesee Valley Center, Flint, Mich.	268	1970
Southland Center, Taylor, Mich.	292	1970
Franklin Park Mall, Toledo, Ohio	187	1971
Briarwood Shopping Center, Ann Arbor, Mich.	187	1974
Woodland Mall, Grand Rapids, Mich.	122	1975
Fairlane Center, Dearborn, Mich.	240	1976
Fashion Square Mall, Saginaw, Mich.	122	1976
	<u>5,105</u>	

Dayton's (1902)*

	Total Sq. Ft. (000)	Date Opened
Carl R. Erickson, President		
Downtown Minneapolis, Minn.	1,385	1902
Southdale Center, Edina, Minn.	294	1956
Downtown St. Paul, Minn.	383	1963
Brookdale Center, Brooklyn Center, Minn.	195	1966
Southdale Home Store, Edina, Minn.	47	1968
Rosedale Center, Roseville, Minn.	203	1969
Apache Mall, Rochester, Minn.	155	1972
Brookdale Home Store, Brooklyn Center, Minn.	46	1972
West Acres Center, Fargo, N.D.	115	1973
Ridgedale Center, Minnetonka, Minn.	206	1974
Crossroads Center, St. Cloud, Minn.	102	1976
Rosedale Home Store, Roseville, Minn.	53	1976
	<u>3,184</u>	

Diamond's (1891)*

	Total Sq. Ft. (000)	Date Opened
Glenn E. Johnson, President		
Park Central Center, Phoenix, Ariz.	165	1957
Thomas Mall Center, Phoenix, Ariz.	190	1963
Tri-City Mall, Mesa, Ariz.	138	1969
Las Vegas, Nev.	41	1970

*Year founded.

Department Stores

- Hudson's ■ Dayton's ■ Diamond's
- Lipmans ■ John A. Brown

Low-Margin Stores

- Target ■ Lechmere

Specialty Stores

- B. Dalton, Bookseller
- Dayton Hudson Jewelers
- Team

Real Estate

- Dayton Hudson Properties

MetroCenter, Phoenix, Ariz.	180	1973
Fashion Square, Scottsdale, Ariz.	50	1974
Park Mall, Tucson, Ariz.	98	1974
	<u>862</u>	
Lipmans (1850)*		
Robert W. Chizum, President		
Downtown Portland, Ore.	254	1912
Salem, Ore.	75	1954
Eastport Plaza, Portland, Ore.	85	1960
Corvallis, Ore.	42	1964
Lloyd Center, Portland, Ore.	50	1972
Washington Square, Portland, Ore.	113	1973
Valley River Center, Eugene, Ore.	50	1975
	<u>669</u>	
John A. Brown (1915)*		
James W. Sherburne, President		
Norman, Okla.	4	1949
Penn Square, Oklahoma City, Okla.	127	1960
Utica Square, Tulsa, Okla.	77	1971
Crossroads Mall, Oklahoma City, Okla.	150	1974
Woodland Hills Mall, Tulsa, Okla.	125	1976
	<u>483</u>	
TOTAL DEPT. STORES	10,303	



Dayton Hudson Corporation

At the close of 1976, Dayton Hudson Corporation was operating 413 stores in 38 states, and had 11 regional shopping centers in Michigan, Minnesota and Oklahoma.

LOW-MARGIN STORES

Target (1961)*	Total Sq. Ft. (000)	Date Opened
Kenneth A. Macke, Chairman		
Bruce G. Allbright, President		
Roseville, Minn.	85	1962
Crystal, Minn.	120	1962
Duluth, Minn.	98	1962
Knollwood, St. Louis Park, Minn.	106	1962
Bloomington, Minn.	118	1965
Glendale Center, Denver, Colo.	119	1966
Westland Center, Sunset Park, Colo.	119	1966
West St. Paul, Minn.	118	1967
Fridley, Minn.	119	1967
North County, St. Louis, Mo.	118	1968
South County, St. Louis, Mo.	118	1968
Bridgeton, Mo.	118	1969
North Dallas, Tex.	129	1969
Garland, Tex.	129	1969
Colorado Springs, Colo.	129	1969
Hedwig Village, Houston, Tex.	124	1969
South Loop, Houston, Tex.	124	1969
Sharpstown, Houston, Tex.	124	1970
Tulsa, Okla.	127	1970
Almeda, Houston, Tex.	119	1970
University City, Mo.	126	1970
Village Fair Center, Dallas, Tex.	134	1970
Greenfield, Wis.	126	1970
Wauwatosa, Wis.	126	1970
North St. Paul, Minn.	111	1971
Ballwin, Mo.	111	1971
Arlington, Tex.	111	1971
North Des Moines, Iowa	124	1971
South Des Moines, Iowa	90	1971
Mason City, Iowa	50	1972
Ames, Iowa	45	1972
Cedar Rapids, Iowa	80	1972
Fort Dodge, Iowa	61	1972
Ottumwa, Iowa	50	1972
Omaha, Neb.	120	1972
Clinton, Iowa	60	1972

Thornton, Colo.	108	1972
South Denver, Colo.	108	1972
Oklahoma City (North), Okla.	115	1972
Oklahoma City (South), Okla.	115	1972
Midwest City, Okla.	86	1972
Norman, Okla.	71	1972
Bettendorf, Iowa	80	1972
Moline, Ill.	80	1972
Coon Rapids, Minn.	88	1972
Edina, Minn.	113	1973
Hampton Village, St. Louis, Mo.	100	1975
West Allis, Wis.	100	1975
Lake Street, Minneapolis, Minn.	100	1976
Arvada, Colo.	100	1976
North Oaks, Houston, Tex.	100	1976
Omaha, Neb.	90	1976
	<u>5,440</u>	

Lechmere (1911)*

David Banker, President		
Cambridge, Mass.	249	1956
Dedham, Mass.	196	1965
Liberty Tree Mall, Danvers, Mass.	199	1970
Springfield, Mass.	159	1971
	<u>803</u>	
TOTAL LOW-MARGIN	6,243	

SPECIALTY STORES

	Total Sq. Ft. (000)	Date Opened
Dayton Hudson Jewelers		
Sherman A. Swenson, President		
J. E. Caldwell (1839)*		
Downtown Philadelphia, Pa.	33	1916
Wilmington, Del.	2	1953
Haverford, Pa.	6	1954
Moorestown, N.J.	4	1965
Plymouth Meeting, Pa.	4	1966
Harrisburg, Pa.	5	1970
	<u>54</u>	
J. B. Hudson (1885)*		
Downtown Minneapolis, Minn.	10	1929
Southdale Center, Edina, Minn.	5	1956
Downtown St. Paul, Minn.	4	1963
Brookdale Center, Brooklyn Center, Minn.	3	1966
Rosedale Center, Roseville, Minn.	3	1969
Omaha, Neb.	5	1970
Rochester, Minn.	2	1974
Ridgedale Center, Minnetonka, Minn.	3	1974
	<u>35</u>	

J. Jessop & Sons (1860)*

Downtown San Diego, Calif.	12	1893
La Jolla, Calif.	4	1949
Chula Vista, Calif.	4	1956
Mission Valley Center, San Diego, Calif.	4	1961
Le Mesa, Calif.	4	1961
Escondido, Calif.	4	1964
College Grove Center, San Diego, Calif.	5	1968
	<u>37</u>	

C. D. Peacock (1837)*

Downtown Chicago, Ill.	23	1927
Skokie, Ill.	5	1957
Oakbrook, Ill.	8	1962
Calumet City, Ill.	9	1967
Schaumburg, Ill.	5	1971
Vernon Hills, Ill.	4	1973
Aurora, Ill.	2	1975
	<u>56</u>	

Shreve's (1852)*

Downtown San Francisco, Calif.	20	1906
Palo Alto, Calif.	4	1968
San Mateo, Calif.	5	1969
San Jose, Calif.	4	1971
Walnut Creek, Calif.	3	1971
Concord, Calif.	1	1975
	<u>37</u>	

Charles W. Warren (1902)*

Somerset Mall, Troy, Mich.	6	1969
Northland Center, Southfield, Mich.	3	1969
Eastland Center, Harper Woods, Mich.	2	1974
Briarwood Center, Ann Arbor, Mich.	3	1975
Westland Center, Westland, Mich.	2	1975
Lakeside Center, Sterling Heights, Mich.	2	1976
Fairlane Center, Dearborn, Mich.	3	1976
	<u>21</u>	

Total Jewelry Stores 240

B. Dalton, Bookseller

Floyd Hall, President

B. Dalton (1966)*

	Number of Stores	Total Sq. Ft. (000)
Alabama	3	
Arizona	7	
California	29	
Colorado	3	
Connecticut	2	
Florida	14	
Georgia	8	
Idaho	3	
Illinois	11	
Indiana	6	
Iowa	2	
Kansas	4	
Kentucky	1	
Louisiana	2	
Maryland	1	
Massachusetts	1	
Michigan	13	
Minnesota	12	
Missouri	8	
Nebraska	4	
Nevada	1	
New Jersey	9	
New Mexico	1	
New York	7	
North Carolina	7	
North Dakota	2	
Ohio	10	
Oklahoma	6	
Oregon	3	
Pennsylvania	5	
South Carolina	2	
South Dakota	1	
Tennessee	2	
Texas	18	
Virginia	6	
Washington	3	
Wisconsin	3	
	<u>220</u>	

Pickwick Bookshops (1938)*

California	30	
Total Bookstores	<u>250</u>	956

Team Central (1946)*

Paul D. Hagstrum, President

Colorado	1	
Illinois	2	
Kansas	3	
Michigan	3	
Minnesota	2	
Nebraska	2	
Oklahoma	6	
Wisconsin	3	
	<u>22</u>	54
Total company owned stores (Franchised and partially owned)	<u>85</u>	

TOTAL SPECIALTY STORES 1,250

TOTAL RETAIL 17,796

REAL ESTATE

	Leaseable Sq. Ft. (000)	Date Opened
Dayton Hudson Properties		
Michael Kelly, President		

Shopping Centers

Northland, Southfield, Mich.	1,551	1954
Southdale, Edina, Minn.	1,108	1956
Eastland, Harper Woods, Mich.	1,306	1957
Brookdale, Brooklyn Center, Minn.	875	1962
Westland, Westland, Mich.	848	1965
Rosedale, Roseville, Minn.	573	1969
Southland, Taylor, Mich.	792	1970
Genesee Valley, Flint, Mich.	816	1970
Ridgedale, Minnetonka, Minn.	1,000	1974
	<u>8,869**</u>	

Commercial, Office, Other

Eastland Professional Building, Harper Woods, Mich.	47	1960
Tower 14, Southfield, Mich.	222	1973
Other	74	
	<u>343</u>	

Total Developed Real Estate	<u>9,212**</u>
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Undeveloped Land

	Acres
Arizona	155
Michigan	386
Minnesota	1,832
Nevada	128
North Dakota	100
Other	27
	<u>2,628</u>

*Year founded.

**Gross leasable area including department store space owned by Dayton Hudson and other retailers. (Excludes joint ventures.)



Dayton Hudson Corporation

DIRECTORS

William A. Andres, President

Bruce B. Dayton, Chairman, Executive Committee of the Board

†**Donald C. Dayton**, Retired Chairman of the Board

Douglas J. Dayton, Chairman, Dade, Inc. (development capital company)

K. N. Dayton, Chairman of the Board

†**Wallace C. Dayton**, Conservationist

Joseph L. Hudson, Jr., Chairman of Hudson's

†**Stephen F. Keating**, Chairman of the Board, Honeywell Inc. (automation equipment manufacturer)

†**Howard H. Kehrl**, Executive Vice President, General Motors Corporation (manufacturer of transportation equipment)

***David T. McLaughlin**, President, The Toro Company (yard care equipment manufacturer)

Philip H. Nason, Chairman of the Board, The First National Bank of Saint Paul

***Stephen L. Pistner**, Executive Vice President

***Richard L. Schall**, Executive Vice President

†**William H. Spoor**, Chairman of the Board, The Pillsbury Company (diversified food producer)

Paul N. Ylvisaker, Dean of the Graduate School of Education, Harvard University

†**Shirley Young**, Executive Vice President, Grey Advertising Inc. (advertising agency)

†Audit Committee
*Elected September 1976

OFFICERS

K. N. Dayton, Chairman of the Board

William A. Andres, President and Chief Executive Officer

Richard L. Schall, Executive Vice President and Chief Administrative Officer

Stephen L. Pistner, Executive Vice President, Retail

Bruce B. Dayton, Chairman of the Executive Committee

Robert J. Crabb, Senior Vice President

Carl R. Erickson, Senior Vice President

Joseph L. Hudson, Jr., Senior Vice President

Kenneth A. Macke, Senior Vice President

Wayne E. Thompson, Senior Vice President

Gerald R. Dirks, Vice President - Investments and Financial Relations

David W. Haskin, Vice President - Personnel

Thomas E. Nave, Vice President - Controller

Allan L. Pennington, Vice President - Corporate Development

Albert B. Perlin, Vice President, General Counsel and Secretary

Willard C. Shull III, Vice President - Finance and Treasurer

Peter Corcoran, Assistant Treasurer

Karol D. Emmerich, Assistant Treasurer

William E. Harder, Assistant Secretary

David H. McCaffrey, Assistant Treasurer

TRANSFER AGENTS AND REGISTRARS

Northwestern National Bank of Minneapolis

The Northwestern Trust Company, New York City

10-K REPORT

A copy of the Form 10-K annual report filed with the Securities and Exchange Commission for Dayton Hudson Corporation's fiscal year ended January 29, 1977, is available at no charge to shareholders on request. Write to Manager, Shareholder Relations.



Dayton Hudson Corporation

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Minneapolis, Minnesota

55402

